# Lifestyle China Group Limited
# 利 福 中 國 集 團 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

**Stock Code: 2136**

# LISTING BY WAY OF INTRODUCTION

Sponsor

BNP PARIBAS

**IMPORTANT**

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

# LIFESTYLE CHINA GROUP LIMITED

# 利 福 中 國 集 團 有 限 公 司

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

## LISTING BY WAY OF INTRODUCTION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE COMPANY ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

**Stock Code: 2136**

**Sponsor**

BNP PARIBAS

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This listing document is published in connection with the Introduction on the Main Board of the Stock Exchange and contains particulars given in compliance with the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules solely for the purpose of giving information with regard to our Group.

This listing document does not constitute an offer of, nor is it calculated to invite offers for, shares or other securities of our Company, nor have any such shares or other securities been allotted or issued with a view to any of them being offered for sale to, or subscription by, the public. No Shares will be allotted and issued in connection with, or pursuant to, this listing document.

Your attention is drawn to the section headed "Risk factors" in this listing document.

Information regarding the proposed arrangements for the listing of, and dealings and settlement of dealings in, our Shares following the Introduction is set out in the section headed "Information about this listing document and the Introduction" in this listing document.

30 June 2016

# EXPECTED TIMETABLE (Notes 1 and 2)

| | 2016 |
|---|---|
| Last day of dealings in Lifestyle Shares on a cum entitlement basis | Monday, 4 July |
| First day of dealings in Lifestyle Shares on an ex entitlement basis | Tuesday, 5 July |
| Latest time for lodging transfers of the Lifestyle Shares cum entitlement to our Shares pursuant to the Distribution | 4:30 p.m. on Wednesday, 6 July |
| Register of members of Lifestyle closes (both dates inclusive) | Thursday, 7 July to Monday, 11 July |
| Distribution Record Date | Monday, 11 July |
| Register of members of Lifestyle re-opens on | Tuesday, 12 July |
| Share certificates of our Shares to be despatched on | Thursday, 14 July |
| Dealings in our Shares on the Stock Exchange expected to commence at | 9:00 a.m. on Friday, 15 July |
| Payment to Lifestyle Excluded Shareholders of the net proceeds of the sale of our Shares which they would otherwise receive pursuant to the Distribution on or around | Friday, 5 August |

*Notes:*

(1) All times refer to Hong Kong local time.

(2) The share certificates of our Shares are expected to be despatched to Lifestyle Qualifying Shareholders on Thursday, 14 July 2016 after the Stock Exchange grants its approval for the Listing, which is expected to be on or before Thursday, 14 July 2016. One share certificate of our Shares will be issued to each Lifestyle Qualifying Shareholder for the entitlement of our Shares, save for the share certificates to be issued to HKSCC Nominees Limited, which may be in such denominations as requested by HKSCC Nominees Limited. In the event the listing approval is not obtained on Thursday, 14 July 2016, the share certificates of our Shares may not be despatched on Thursday, 14 July 2016 and dealings in our Shares on the Stock Exchange may not commence on Friday, 15 July 2016. In such event, and before 9:00 a.m. on Friday, 15 July 2016, we will make an announcement of the above and (if necessary) of a revised timetable.

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*You should rely only on the information contained in this listing document to make your investment decision. We have not authorised anyone to provide you with information which is different from that contained in this listing document. Any information or representation not made in this listing document must not be relied upon by you as having been authorised by us, the Sponsor, any of their respective Directors or any other person or party involved in the Introduction.*


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*This summary aims to give you an overview of the information contained in this listing document. As this is a summary, it does not contain all of the information which may be important to you. You should read the whole document before you decide to invest in our Shares. There are risks associated with any investment. Some of the particular risks in investing in our Shares are summarised in the section headed "Risk factors" in this listing document. You should read that section carefully before you decide to invest in our Shares.*

## OVERVIEW

We are an established operator of department stores based in the PRC. We operate Shanghai Jiuguang, Suzhou Jiuguang and Dalian Jiuguang. The department stores we operate are "lifestyle" department stores, with middle to upper-end market positioning and through our Jiuguang Brand in the PRC. According to the CIC Report, Shanghai Jiuguang ranked third in terms of retail sales value in 2015 in Shanghai's department store market with approximately 2.4% market share. Suzhou Jiuguang ranked fourth in terms of retail sales value in 2015 in Suzhou's department store market with approximately 2.7% market share. Our department stores are characterised by the "one-stop shopping", "shops-in-shop", and "customer oriented" concepts, which we aim to offer quality goods and services, customer convenience and a comfortable shopping environment. In addition, we are in the process of developing our new department store also under the Jiuguang Brand to be housed in a complex to be developed by us on Daning Road, Jing'an District, Shanghai in the PRC which is targeted to be completed in December 2018 (i.e. our Daning Project).

Our department stores offer a wide variety of goods ranging from daily necessities to luxury products as well as personal care services, such as hair and beauty salons, for meeting the needs of our customers. Depending on the location of the department stores, the merchandise are sold by means of concessionaire sales as well as direct sales and can be broadly categorised into apparels and fashion, cosmetics and accessories, household, toys and others, and food and confectionery. The merchandise mix and services provided by our department stores are reviewed and adjusted from time to time to enhance the shopping experience it provides and to attract new customers and retain existing customers with the goal of increasing turnover to our Group. We also lease space in our department stores to third party service providers, such as restaurants, for rental income. Furthermore, we receive service income from concessionaires and suppliers for displaying their products and billboards in our department stores.

Other than department stores, we also operate supermarkets in the PRC, two of which are located inside Shanghai Jiuguang and Suzhou Jiuguang. Also, our Group's first standalone supermarket in Shanghai was launched in July 2013 inside the "L'Avenue Shanghai", a high-end luxury shopping mall complex located in the Hongqiao Economic Development Zone of Shanghai. All of these supermarkets are operated under the Freshmart Brand. Our standalone supermarket represents our Group's effort to broaden the presence of our Freshmart Brand, as our Directors believe that the high-quality food and confectionary products offered at our supermarkets have been enjoying widespread popularity among customers at Shanghai Jiuguang.

We also operate two Wa San Mai in the PRC and one in Hong Kong. Wa San Mai are Japanese teppanyaki style restaurants, featuring Japanese style teppanyaki, hotpot, and sushi with a la carte dining areas as well as private rooms. We have also invested in an associate, which operates Royal China, with cuisine including the middle to upper-end Cantonese food and Longji, a Hong Kong style "cha chaan teng" (茶餐廳), in the PRC.

In order to diversify into and gain experience on operating in the department store market in Hebei Province in the PRC where we have no prior exposure, in 2008 and 2010, we made equity investment in, a leading retailer group, the Beiren Group, based in Shijiazhuang, Hebei Province in the PRC. As at the Latest Practicable Date, we have an effective equity stake of approximately 29.4% in the Beiren Group through Wingold's shareholding interest in Beiren, and we also have equity interest in other Beiren Group companies through our interest in Beiguo through Wingold (our 60% owned subsidiary) and in Hebei Future Mall through Ample Sun (our 60% owned subsidiary) ("**Investment in Beiren Group**").

We also hold 65% and 50% equity interests in Shanghai Ongoing and Shanghai Joinbuy, respectively. As at the Latest Practicable Date, Shanghai Ongoing is principally engaged in the operation of department store in Shanghai, the PRC, being Shanghai Jiuguang, while Shanghai Joinbuy holds a property in Shanghai, the PRC, where Shanghai Jiuguang is situated.

Our turnover consists of four categories, namely turnover from direct sales of goods, income from concessionaire sales, service income, and rental income. Our other income, gains and losses primarily consist of management fee income, project income, government subsidies, net exchange (loss) gain, credit card recharge, income from suppliers and lessees (representing the rebate received from our direct suppliers and fee charged from our lessees), and compensation for early termination of counters.

The following table illustrates the breakdown of our turnover during the Track Record Period:

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | |
| | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* |
| **Sales of goods — direct sales** | **392,262** | **30.7** | **421,119** | **31.1** | **446,496** | **32.4** |
| Department stores (excluding supermarkets) | 79,115 | 6.2 | 118,676 | 8.8 | 154,397 | 11.2 |
| Supermarkets | | | | | | |
| *Supermarkets located inside our Jiuguang department stores* | 199,686 | 15.6 | 173,383 | 12.8 | 167,555 | 12.1 |
| *Standalone supermarket* | 19,172 | 1.5 | 40,622 | 3.0 | 30,724 | 2.3 |
| Restaurants | 94,289 | 7.4 | 88,438 | 6.5 | 93,820 | 6.8 |
| **Income from concessionaire sales** | **732,688** | **57.6** | **779,102** | **57.4** | **769,655** | **55.7** |
| **Service income** | **52,994** | **4.2** | **51,385** | **3.8** | **55,804** | **4.0** |
| **Rental income** | **94,928** | **7.5** | **104,229** | **7.7** | **109,393** | **7.9** |
| | **1,272,872** | **100.0** | **1,355,835** | **100.0** | **1,381,348** | **100.0** |

**Share of profits of the Beiren Group**

Share of profits of the Beiren Group contributed a significant portion of our Group's profit and accounting for approximately 57.2%, 65.7% and 66.5% of our Group's profit for each of the three years ended 31 December 2015. The following table compares our share of profits of the Beiren Group with our profit for the year during the Track Record Period:

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Share of profits of the Beiren Group | 337,852 | 371,808 | 370,827 |
| Profit for the year | 590,897 | 566,283 | 557,720 |

The Beiren Group operates department stores, supermarkets and electrical appliance stores, most of which are located in Shijiazhuang, Hebei Province in the PRC. Share of profits for the Beiren Group amounted to approximately HK$337.9 million, HK$371.8 million and HK$370.8 million, representing a substantial portion of our profit for the year of approximately 57.2%, 65.7% and 66.5% for each of the three years ended 31 December 2015, respectively. However, we do not have control over the business of Beiren Group. Please refer to the paragraph headed "Non-HKFRS measures" in the section headed "Financial information" in this listing document regarding contribution of the Beiren Group to our Group.

### Non-HKFRS Measures

Given that a substantial portion of our profits has been derived from our associates, in particular, our Investment in Beiren Group, the following table illustrates the financial performance of our Group excluding the financial results of the Group's associates during the Track Record Period:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Gross profit | 943,416 | 1,008,832 | 1,014,577 |
| Gross profit margin | 74.1% | 74.4% | 73.5% |
| Net profit | 161,416 | 102,374 | 84,071 |
| Net profit margin | 12.7% | 7.6% | 6.1% |

The decline in gross profit margin, net profit and net profit margin of our Group excluding the financial results of the Group's associates were principally attributable to the operating loss incurred by Shenyang Jiuguang. Since its opening in October 2013, Shenyang Jiuguang has been facing with a challenging and deteriorating operating environment with shrinking economic activities, oversupply of retailing space, weak local customer spending power and fragile consumer sentiment in Shenyang. It experienced a net loss of approximately HK$40.3 million, HK$153.2 million and HK$183.6 million for each of the three years ended 31 December 2015, respectively, mainly due to the operating expenses, which include cost of sales, depreciation and amortisation of its properties and equipment and staff costs that cannot be covered by its turnover. In light of the anticipated prolonged economic slowdown in Shenyang, our Group strategically closed down the store in December 2015 as part of its efforts to reallocate our Group's resources to other more promising stores or business areas.

## RISK FACTORS

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We believe the more significant risks relating to our business are as follows:

- Our results of operations are largely affected by the performance of the Beiren Group, over which business we do not have control as we only have a minority interest in those entities
- We rely on our concessionaires to provide a variety of products and brands to generate a substantial amount of our turnover
- Our success depends on our ability and the ability of our concessionaires to assess, identify and respond in a timely manner to constantly changing customer preferences
- If the development of our Daning Project deviates from our estimates due to unexpected circumstances, our business, results of operations and growth prospects may be adversely affected
- Failure to successfully promote our brand or maintain our goodwill may materially and adversely affect our business and results of operations

The above risks are not the only significant risks and you should read the section headed "Risk factors" in this listing document carefully.

## OUR COMPETITIVE STRENGTHS

We believe that the following are our competitive strengths:

- Strong competitive position backed by solid operating strategy
- Our Jiuguang Brand in the PRC department store market
- High percentage of property ownership increases operating leverage and flexibility
- Experienced management team and proven management structure
- Our presence and market share position in the PRC

## OUR STRATEGIES

We aim to strengthen our department store market leadership position as an operator of Jiuguang Brand and increase our competitiveness in the PRC. Our strategy consists of the following:

- Continue to offer a one-stop shopping experience to customers
- Continue to prudently diversify and expand in the PRC market
- Maintain a high quality and appealing merchandise mix
- Further strengthen our relationship with concessionaires
- Continue to expand our VIP Customer base
- Maintain corporate and localised operating strategies

## DEPARTMENT STORES

### Sales

During the Track Record Period, we have operated four department stores, being Shanghai Jiuguang, Suzhou Jiuguang, Dalian Jiuguang and Shenyang Jiuguang (which was closed in December 2015). The following table sets out the particulars of these department stores:

| | Location | Attributable interests | Year commenced operations | Property interest owned/leased | Financial Information<br>Year ended 31 December | Sales proceeds (net of tax)<br>*HK$'000* | Turnover<br>*HK$'000* | Gross profit<br>*HK$'000* |
|---|---|---|---|---|---|---|---|---|
| **Shanghai Jiuguang** | 1618 Nanjing West Road, Jing'an, Shanghai, the PRC | 65% | September 2004 | Leased from Shanghai Joinbuy, which we have 50% interest | 2013 | 2,449,460 | 848,102 | 623,162 |
| | | | | | 2014 | 2,424,195 | 860,049 | 634,857 |
| | | | | | 2015 | 2,456,978 | 899,612 | 647,286 |
| **Suzhou Jiuguang** | 268 Wangdun Road, Suzhou Industrial Park, Suzhou, Jiangsu, the PRC | 100% | January 2009 | Owned | 2013 | 887,640 | 254,076 | 198,009 |
| | | | | | 2014 | 973,667 | 279,247 | 226,104 |
| | | | | | 2015 | 961,816 | 280,770 | 228,380 |
| **Dalian Jiuguang** | 11 Youhao Street, Zhongshan, Dalian, Liaoning Province, the PRC | 100% | May 2009 | Owned | 2013 | 148,321 | 36,520 | 36,319 |
| | | | | | 2014 | 124,910 | 31,991 | 31,822 |
| | | | | | 2015 | 93,082 | 23,257 | 23,172 |
| **Shenyang Jiuguang** | No. 68 Zhongjie Road, Shenhe District, Shenyang, Liaoning Province, the PRC | 100% | October 2013 | Owned | 2013 | 18,508 | 5,479 | 3,638 |
| | | | | | 2014 | 113,019 | 27,223 | 17,064 |
| | | | | | 2015 | 86,769 | 27,679 | 16,133 |

The following table sets out the turnover and the gross profit of our direct sales and concessionaire sales in each of our department stores:

| | | **Turnover** | | **Gross profit** | |
|---|---|---|---|---|---|
| | **Year ended 31 December** | **Direct sales proceeds (net of tax)**<br>*HK$'000* | **Income from concessionaire sales** *(Note)*<br>*HK$'000* | **Direct sales**<br>*HK$'000* | **Income from concessionaire sales** *(Note)*<br>*HK$'000* |
| Shanghai Jiuguang | 2013 | 204,432 | 547,543 | 55,260 | 547,543 |
| | 2014 | 211,741 | 552,327 | 53,137 | 552,327 |
| | 2015 | 241,103 | 556,215 | 54,219 | 556,215 |
| Suzhou Jiuguang | 2013 | 72,519 | 146,801 | 16,452 | 146,801 |
| | 2014 | 69,997 | 173,413 | 16,853 | 173,413 |
| | 2015 | 69,309 | 173,429 | 16,919 | 173,429 |
| Dalian Jiuguang | 2013 | 255 | 28,741 | 54 | 28,741 |
| | 2014 | 226 | 23,235 | 57 | 23,235 |
| | 2015 | 99 | 15,783 | 13 | 15,783 |
| Shenyang Jiuguang | 2013 | 1,594 | 2,818 | 296 | 2,818 |
| | 2014 | 10,273 | 15,487 | 845 | 15,487 |
| | 2015 | 12,178 | 11,347 | 827 | 11,347 |

*Note:* The cost of holding inventories, as well as the selling costs, are borne by and transferred to the concessionaires. Therefore, the gross profit generated from concessionaire sales equals to the income from concessionaire sales.

### Sales proceeds and merchandising

Sales of our Group in our department stores and supermarkets are conducted by way of direct sales and concessionaire sales. Sales proceeds (net of tax) represent the net amount received under direct sales and concessionaire sales (i.e. net of value-added tax). The table below is a summary of the sales proceeds (net of tax) during the Track Record Period:

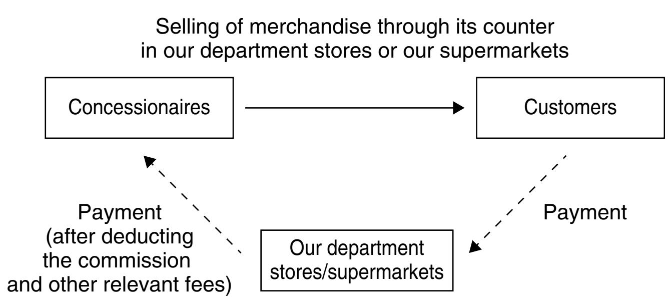
| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | |
| | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* |
| Sales proceeds (net of tax) | | | | | | |
| Direct sales | 392,262 | 10.8 | 421,119 | 11.0 | 446,496 | 11.8 |
| Concessionaire sales | 3,256,183 | 89.2 | 3,416,283 | 89.0 | 3,347,490 | 88.2 |
| Total | 3,648,445 | 100.0 | 3,837,402 | 100.0 | 3,793,986 | 100.0 |

A significant portion of our sales proceeds (net of tax) is derived from concessionaire sales. Nevertheless, our Group does not rely on any individual concessionaire considering that none of our concessionaires individually accounted for more than 1.5% of our turnover for any of the three years ended 31 December 2015.

Our Group offers a wide range of merchandise, which can be broadly divided into "apparel and fashion", "cosmetics and accessories", "household, toys and others", and "food and confectionary" to satisfy our customers' needs.

Set out below is an illustration of direct sales operation flow:


Set out below is an illustration of concessionaire sales operation flow:




For direct sales in our department stores and supermarkets, we source and sell our own direct-purchase merchandise. Our direct sales segment also includes our self-operated restaurants in Hong Kong and the PRC.

Under concessionaire sales arrangements, we enter into concessionaire agreements with concessionaires to allow them to set up their own sales counters for their products in designated areas in our department stores or supermarkets. Income from our concessionaires is calculated based on certain percentages of sales proceeds (before tax) and is subject to an agreed minimum amount. Sales proceeds from the concessionaire sales is first collected by us on the concessionaire's behalf and then returned to the concessionaire on a monthly basis after deduction of all relevant expenses and commission. Thus, we do not receive sales proceeds but commission income under the arrangement with our concessionaires.

Concessionaires and suppliers of direct sales of our department stores pay an annual sponsorship fee to us to cover promotional costs and also pay a separate amount to lease product display space and billboards in our department stores, which are not compulsory but according to the needs of our concessionaires. Service income generated from such fees for each of the three years ended 31 December 2015 amounted to approximately HK$53.0 million, HK$51.4 million, and HK$55.8 million, respectively.

We also lease our department store space to third party service providers for rental income. Rental income for each of the three years ended 31 December 2015 amounted to approximately HK$94.9 million, HK$104.2 million and HK$109.4 million, respectively.

Our gross profit for each of the three years ended 31 December 2015 amounted to approximately HK$943.4 million, HK$1,008.8 million, and HK$1,014.6 million, respectively.

**Customers and suppliers**

Sales proceeds from our department stores (including supermarkets within the department stores) are generated from purchases by customers/shoppers who shop at our department stores and such sales proceeds may be derived from our direct sales of merchandise or from sales by our concessionaires. The retail shoppers are primarily individuals living in the communities and areas surrounding our department stores and typically settle payments in cash, debit cards, prepaid cards or credit cards on their purchase. None of our shoppers individually accounted for more than 1% of our turnover for any of the three years ended 31 December 2015.

In respect of our turnover, the majority of our turnover was contributed by concessionaires during the Track Record Period. During the Track Record Period, our top five concessionaires in aggregate accounted for approximately 4.2%, 4.3%, and 4.5% of our turnover, respectively. Our top five concessionaires during the Track Record Period include apparel and fashion, and jewellery concessionaires. In each of the three years ended 31 December 2015, our largest concessionaire accounted for approximately 1.4%, 1.1% and 1.4% of our turnover, respectively.

Save for one of our concessionaires, who was an associate of a Controlling Shareholder of the Lifestyle Group during the years ended 31 December 2013 and 2014 but ceased to be an associate of a Controlling Shareholder of the Lifestyle Group during the year ended 31 December 2015, and who was an associate of a director of the Lifestyle Group during the Track Record Period, all of our Group's five largest concessionaires during the Track Record Period are Independent Third Parties. Save as disclosed above, none of our Directors, their close associates or our Shareholders (whom to the knowledge of our Directors own more than 5% of the issued Shares) had any interest in any of our Group's five largest concessionaires during the Track Record Period.

During the Track Record Period, purchases from our top five suppliers in aggregate accounted for approximately 23.1%, 29.6%, and 33.2% of our total purchases, respectively. All of our top five suppliers during the Track Record Period are from our direct sales segment, including cosmetics and accessories, and food and confectionary suppliers. In each of the three years ended 31 December 2015, our largest supplier accounted for approximately 7.0%, 9.0% and 9.8% of our total purchases, respectively.

All of our Group's five largest suppliers during the Track Record Period are Independent Third Parties. None of our Directors, their close associates or our Shareholders (whom to the knowledge of our Directors own more than 5% of the issued Shares) had interest in any of our Group's five largest suppliers during the Track Record Period.

## CONTINUING CONNECTED TRANSACTIONS

There were various transactions between our Group and the Remaining Lifestyle Group, Lifestyle Properties Group or Shanghai Joinbuy (as the case may be) which will continue and constitute certain non-exempt continuing connected transactions and exempt continuing connected transactions of our Group under the Listing Rules after Listing. Such non-exempt continuing connected transactions include the Framework Agreement, Shanghai Tenancy Agreement and HK Restaurant Tenancy Agreement. For details of our continuing connected transactions, please refer to the section headed "Continuing connected transactions" in this listing document.

### Relationship with our Controlling Shareholders and the Lifestyle Group

Immediately following completion of the Distribution and the Spin-off, United Goal will hold 33.70% of the total issued share capital of our Company and Mr. Thomas Lau, who apart from his interest held through United Goal, will also either directly or through Dynamic Castle hold another 17.99% of the total issued share capital of our Company immediately following completion of the Spin-off based on their shareholdings in Lifestyle on the Latest Practicable Date and assuming that they will remain unchanged on the Distribution Record Date. Hence, United Goal and Mr. Thomas Lau will become our Controlling Shareholders following completion of the Spin-off. Mr. Thomas Lau, being our executive Director, also holds position as director on the board of Lifestyle. Mr. Thomas Lau has been redesignated as the non-executive director and chairman of Lifestyle since 28 June 2016. Save as disclosed in this listing document, our Directors and our Controlling Shareholders have separately confirmed that they do not have interest in any business apart from our Group's business which competes or is likely to compete, directly or indirectly, with the business of our Group.

### Non-compete undertakings between our Company and Lifestyle Properties

In order to ensure that there is a clear delineation between the business of the Lifestyle Group (other than the Lifestyle Properties Group) and the business of Lifestyle Properties Group following the LP Spin-off, Lifestyle has given non-compete undertakings to Lifestyle Properties pursuant to the LP Non-compete Deed. Our Group was part of the Lifestyle Group at the time of the LP Spin-off.

After the Spin-off, the TL Parties will remain to be the Controlling Shareholders of both Lifestyle and our Company. In order to enable Lifestyle Properties to continue to have similar rights conferred under the LP Non-compete Deed following the Spin-off which, when completed, will result in our Group ceasing to be part of the Lifestyle Group, our Company entered into the Newco Non-compete Deed with Lifestyle Properties to provide undertakings on terms similar to those given by Lifestyle to Lifestyle Properties under the LP Non-complete Deed. The purpose of the Newco Non-compete Deed is to maintain clear delineation between the Group and the Lifestyle Properties Group following the Spin-off. As our Group is principally engaged in the operation of department stores and supermarket business in the PRC and restaurant business but not property development and/or property investment, the terms of the Newco Non-compete Deed are consistent with the principal businesses of our Group. For further details, please refer to the section headed "Relationship with our Controlling Shareholders and the Lifestyle Group" in this listing document.

## OUR EXPANSION PLANS

We intend to strengthen our position in the department store market in the PRC by developing our second department store also under the Jiuguang Brand in Shanghai through our Daning Project.

The large retail market and strong spending power of customers in Shanghai had differentiated Shanghai from other retail markets in the PRC. According to the CIC Report, the retail sales value of Shanghai's department store industry increased from approximately RMB90.7 billion in 2010 to approximately RMB97.4 billion in 2015, representing a CAGR of approximately 1.4%. The retail sales value reached its peak in 2013 at approximately RMB100.2 billion. Shanghai, known as the international trade centre, international finance centre, international shipping centre and international economic centre, has the highest GDP among all cities in China in 2015. In accordance with the economic development, per capita disposable income of Shanghai is also the highest among all cities in China. Thus, Shanghai obtained a large share of China's department store market, which was about 8.2% in 2015.

The Group's first department store, being Shanghai Jiuguang, was opened in Shanghai in 2004. Shanghai Jiuguang alone recorded turnover and gross profit of approximately HK$899.6 million and HK$647.3 million for the year ended 31 December 2015. Our Daning Project would be our second department store project in Shanghai. Leveraging on our over 10 years of department store operation experience in Shanghai and given that our Daning Project which is situated approximately five kilometres away from our Shanghai Jiuguang, we believe that our Daning Project would not cannibalise sales of Shanghai Jiuguang but instead can increase our foothold in Shanghai.

As mentioned above, there is a large retail market and strong spending power of customers in Shanghai, which accounted for a large share of China department store market. Evidenced by the consistent financial performance of Shanghai Jiuguang, despite increasing competition in Shanghai's retailing market, our Directors are of the view that our Daning Project would not directly compete against the sales of Shanghai Jiuguang. Instead, it is expected that our Daning Project could further enhance our brand equity and market share in the Shanghai department store market and our competitiveness against other department stores or shopping malls in Shanghai.

According to the CIC Report, the department store market has become relatively mature in developed cities. However, our Directors are of the view that increasing further our presence in the Shanghai market through our Daning Project fits well with our corporate vision of securing attractive retailing locations to creating our landmark position in the neighbourhood. Our Daning Project will not only consist of our Group's second department store in Shanghai, it is expected to be a commercial complex development comprising sizeable retailing premises and office buildings.

We have established working relationship with various local and international brands. As at 31 December 2015, the Group have 1,144 concessionaries and our top 10 concessionaries for the year ended 31 December 2015 have business relationship with us ranging from 2 to 11 years. Our Jiuguang Brand is an established department store brand in the Yangtze River Delta region in China. According to the CIC Report, in 2015, Shanghai Jiuguang ranked third in terms of retail sales value in Shanghai's department store market with approximately 2.4% market share and Suzhou Jiuguang ranked fourth in terms of retail sales value in Suzhou's department store market with approximately 2.7% market share.

Taking into account the above reasons and factors, we are confident that the Group's expansion plans would be achievable and are positive on the future financial performance of the Group. Further details about our plans to expand our current business operations are set out in the paragraph headed "Our expansion plans" in the section headed "Business" in this listing document.

## MARKET CHALLENGES

According to the CIC Report, the market challenges of China's department store industry include the slowdown of China's economy growth and impact from new retail formats. China's macroeconomy is maturing and the nominal GDP ranked the second place in the world in 2015, and the growth rate of China's macroeconomy is expected to slow down in the next few years. As a result, the growth rate of department store market is forecast to slow down accordingly. The emerging online retail channel also has made a significant impact on supermarkets and hypermarkets as well as retailing industry in general. Due to the competitive lower price, convenient payment system and gradually improved distribution service, online retail is taking more market share in retailing industry.

Despite the recent downturn in the PRC economy and consumer market in general, the turnover and profit of Shanghai Jiuguang and Suzhou Jiuguang remain stable during the Track Record Period. Furthermore, according to the CIC Report, the retail sales of consumer goods is expected to grow at a CAGR of approximately 8.4% from 2015 to 2020. As a large proportion of retail sales of consumer goods occur in department stores and supermarkets, both of these two industries are expected to continue their growth in the future.

According to the CIC Report, despite the wide acceptance of online retailing, as most of the purchases of middle to upper-end products were made via offline channels such as department stores and shopping malls, department store remains an important retail format. As our "lifestyle" department stores are primarily focusing on middle to upper-end products, we believe that we are less exposed to the challenge from online retail. According to the CIC Report, although online retail is seeing a rapid growth, the majority of the purchase of consumer goods was still identified in offline retail channel. According to the Ministry of Commerce of the PRC, in 2015, the total online retail sales value of consumer goods was approximately RMB3.2 trillion, representing approximately 10.6% of total retail sales value of consumer goods. On the other hand, consumers pay more attention to the shopping experience and customer service when they purchase middle to upper-end goods, thus offline retail channel is advantageous in such characteristics comparing to online retail channel. Furthermore, most middle to upper-end brands do not offer official online retail option in China. According to the CIC Report, the number of middle to upper-end brands that can be purchased from official online channel was less than 10% in 2015. Therefore, most consumers still purchase these brands through offline retail channel such as department store, outlets and shopping centres.

In view of the potential threat from online retail, we will attempt to remain competitive in the market by conducting more market research to identify popular products and brands to be offered to our customers and enhancing our marketing and promotional activities including cooperating with luxury brands to organise fashion shows and lucky draws. With our financial resources and human resources, we believe we could, through such research and promotional activities, adapt to changing market needs and solidify our market position. Further, shopping experience through offline retail channels, including the offering of customer services, alterations services and fitting services, cannot be replaced or achieved through online retail. In particular, personalised customer services (for instance, provision of shopping advice) and direct customer communication are not available through online retail. Our ability to maintain comfortable shopping environment and quality customer services could help us counter the threat from online retail. In addition, our Group also has an experienced management team that has led us through economic downturn periods such as the global financial crisis while continuing to increase turnover and profit. Taking into account the above reasons and factors, and the fact that the sales of Shanghai Jiuguang and Suzhou Jiuguang have remained stable during the Track Record Period, we believe that the Group's business model is sustainable and are positive on the future financial performance of the Group. For further details, please refer to the paragraph headed "Market challenges" in the section headed "Business" in this listing document.

## KEY FINANCIAL AND OPERATIONAL DATA

You should read this sub-section in conjunction with our combined financial information for each of the three years ended 31 December 2015, included in the Accountants' Reports set out in Appendix I to this listing document. Our combined financial information has been prepared in accordance with HKFRS. The table below sets out the combined statements of profit or loss for the periods indicated.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 1,272,872 | 1,355,835 | 1,381,348 |
| Cost of sales | (329,456) | (347,003) | (366,771) |
| Gross profit | 943,416 | 1,008,832 | 1,014,577 |
| Other income, gains and losses | 178,934 | 166,985 | 118,249 |
| Selling and distribution costs | (676,633) | (783,010) | (731,296) |
| Administrative expenses | (143,876) | (137,820) | (153,237) |
| Investment income | 71,355 | 67,465 | 73,191 |
| Share of profit of a joint venture | 31,870 | 26,463 | 38,040 |
| Share of profits of associates | 338,824 | 371,148 | 370,237 |
| Other expenses | — | — | (2,845) |
| Finance costs | (27,418) | (43,585) | (26,908) |
| Profit before taxation | 716,472 | 676,478 | 700,008 |
| Taxation | (125,575) | (110,195) | (142,288) |
| Profit for the year | 590,897 | 566,283 | 557,720 |
| Profit for the year attributable to: | | | |
| Owners of our Company | 365,099 | 324,799 | 305,977 |
| Non-controlling interests | 225,798 | 241,484 | 251,743 |
| | 590,897 | 566,283 | 557,720 |

A description of certain items in the combined statements of financial position as at the end of each year of the Track Record Period is set out below.

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Property, plant and equipment | 3,458,383 | 3,649,493 | 3,934,012 |
| Prepaid lease payments | 3,833,124 | 3,625,067 | 2,855,712 |
| Inventories | 38,044 | 41,798 | 38,090 |
| Trade and other receivables | 189,073 | 225,196 | 159,211 |
| Trade and other payables | 1,335,633 | 1,208,971 | 1,117,692 |

The increase in property, plant and equipment for the year ended 31 December 2014 and 2015 was mainly due to an increase in construction in progress in respect of our Daning Project development.

For the year ended 31 December 2015, our Group transferred approximately HK$778.7 million (representing the amounts of (i) prepaid lease payments of approximately HK$494.6 million; and (ii) construction in progress and other costs of approximately HK$284.1 million directly attributable to the construction and development of the two office towers which forms part of our Daning Project) to the balance of properties under development.

The increase in the inventory balance from approximately HK$38.0 million as at 31 December 2013 to HK$41.8 million as at 31 December 2014 was mainly due to increase in inventory at Shanghai Jiuguang, which was in line with its sales growth. The decrease in the inventory balance from approximately HK$41.8 million as at 31 December 2014 to approximately HK$38.1 million as at 31 December 2015 was mainly due to decrease in inventory balance at Shenyang Jiuguang following cessation of its business in December 2015.

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Our trade receivables mainly consist of receivables from bank for customers' credit card payment, service income receivables and rental income receivables from our lessees.

Our trade and other payables mainly consist of trade payables, construction payables, concessionaire sales payable, deferred income, rental deposits received, accrued expenses, VAT payable and interest payable.

For further information on the abovementioned items in the combined statements of financial position, please refer to the paragraph headed "Description of certain items in the combined statements of financial position" in the section headed "Financial information" in this listing document.

**Net current liabilities**

We had net current liabilities of approximately HK$6,776.3 million, HK$6,685.6 million, and HK$6,948.5 million and HK$6,771.9 million as at 31 December 2013, 2014, and 2015 and 30 April 2016, respectively, due to current liabilities exceeding current assets as at the respective year ends. These amounts primarily resulted from the amounts owing to fellow subsidiaries of our Group which were for our investments made in the PRC throughout each of the three years ended 31 December 2015 and the period ended 30 April 2016, and were unsecured and repayable on demand.

Assuming the Capitalisation Issue took place on 31 May 2016, there would be no outstanding amount owing by our Group to the Remaining Lifestyle Group, except for those arising from continued connected transactions and an amount of HK$4.3 million arising from a related party transaction (which will cease upon Spin-off), and our Group would record a net current assets of approximately HK$1,340.9 million as at 31 May 2016.

### Financial performance of the Beiren Group

While same store sales growth for each store varied, sales growth of the Beiren Group as a whole has been on an uptrend during the Track Record Period notwithstanding the declining retailing environment. This was mainly attributable to the increasing retailing space and number of stores, which was a result of its business expansion in recent years. Amid the challenging local market conditions and increasing competition and operating costs, the Beiren Group had been able to maintain its profit margin over time and its profit growth during the Track Record Period was largely in line with its revenue growth.

## KEY FINANCIAL RATIOS

Set out below is the summary of the key financial ratios of our Group during the Track Record Period.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Gross profit margin *(Note 1 & Note 8)* | 74.1% | 74.4% | 73.5% |
| Net profit margin *(Note 2)* | 28.7% | 24.0% | 22.2% |
| Return on equity *(Note 3)* | 18.5% | 15.6% | 16.0% |
| Return on total assets *(Note 4)* | 2.9% | 2.4% | 2.2% |

| | As at 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Current ratio *(Note 5)* | 0.25 | 0.28 | 0.27 |
| Gearing ratio (bank borrowings) *(Note 6)* | 16.1% | 20.8% | 32.2% |
| Gearing ratio (all borrowings) *(Note 7)* | 266.6% | 264.2% | 289.8% |

*Notes:*

1. Gross profit margin is calculated as gross profit divided by turnover of the respective years and multiplied by 100%, and gross profit equals to turnover minus cost of goods sold and other cost of sales.
2. Net profit margin is calculated as net profit for the year attributable to the owners of our Company divided by the turnover of the respective years and multiplied by 100%.
3. Return on equity is calculated as net profit for the year attributable to the owners of our Company divided by equity attributable to the owners of our Company of the respective years and multiplied by 100%.
4. Return on total assets is calculated as net profit for the year attributable to the owners of our Company divided by the total assets of our Group of the respective years and multiplied by 100%.
5. Current ratio is calculated as the total current assets divided by the total current liabilities as at the respective dates.
6. Gearing ratio (bank borrowings) is calculated as bank borrowings divided by total equity as at the respective dates and multiplied by 100%.
7. Gearing ratio (all borrowings) is calculated as the aggregate of bank borrowings, amounts due to fellow subsidiaries and amount due to a non-controlling shareholder of subsidiaries divided by total equity as at the respective dates and multiplied by 100%.
8. An analysis of the gross profit margin in respect of direct sales is set out as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Gross profit margin in respect of direct sales | 35.5% | 34.1% | 34.3% |
| Gross profit margin in respect of direct sales (excluding profits from the supermarket and restaurant business activities) | 49.1% | 39.4% | 42.0% |

## PROPERTY VALUATION

A property valuation report on our properties in Shenyang and Shanghai, prepared by DTZ Cushman & Wakefield Limited, an independent valuer we engaged, is contained in Appendix III to this listing document. The aggregate market value of our properties in Shenyang and Shanghai as at 30 April 2016 was approximately RMB5,180 million. In connection with its valuation, DTZ Cushman & Wakefield Limited applied the direct comparison approach assuming sale in its existing state and by making reference to comparable sales evidences as available in the relevant market or, wherever appropriate, DTZ Cushman & Wakefield Limited have taken into account the expended construction cost. Please see the paragraph headed "Properties" in the section headed "Business" in, and Appendix III attached to, this listing document for details on our properties. For risks associated with the assumptions made in the valuation of our properties in Shenyang and Shanghai, please refer to the section headed "Risk factors" in this listing document.

## RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Our Directors confirm that since 31 December 2015 (being the date to which the latest audited combined financial information of our Group were made up) and up to the date of this listing document, there has been no material adverse change in the financial or trading position or prospects of our Group. Furthermore, there has been no event since 31 December 2015 and up to the date of this listing document which would materially and adversely affect the information shown in the Accountants' Report set out in Appendix I to this listing document. According to our management accounts for the four months ended 30 April 2016, the financial performance of our Group remains steady when compared with the same period in 2015.

## REASONS FOR THE SPIN-OFF

The Lifestyle Group mainly operates its full-fledged "lifestyle" department stores, with middle to upper-end market positioning through its two retail brand names, "SOGO" in Hong Kong and "Jiuguang" in the PRC. It is a strategy for the Lifestyle Group to segregate the Hong Kong and PRC operations to allow the respective management teams to focus on its own geographic segment and to cater for different investors' appetite for each of the Hong Kong and PRC market. After the Spin-off, the Remaining Lifestyle Group will continue to be principally engaged in the operation of department stores in Hong Kong, and our Group will be principally engaged in the operation of department stores and supermarket business in the PRC and restaurant business.

Lifestyle considers that the Spin-off is in the interests of Lifestyle and our Company and their respective shareholders as a whole because:

(a) the Remaining Lifestyle Group and our Group operate in different geographic segments and growth paths. By delineating clearly between the operation of the two groups, the Spin-off will provide separate platforms for the businesses of the two groups;

(b) the Spin-off will create two groups of companies which are believed to have different risks profile and will offer investors with an opportunity to participate in the future development of both the Remaining Lifestyle Group as well as our Group and the flexibility to invest in both or either of the groups;

(c) the Spin-off will increase the operational and financial transparency of our Group and provide investors, the market and rating agencies with greater clarity on the businesses and financial status of our Group;

(d) the Spin-off will enable the management of our Group and the Remaining Lifestyle Group to focus on their respective businesses which have different requirements and growth paths, thereby enhancing the decision-making process and their responsiveness to market changes; and

(e) the Spin-off will enable our Company and Lifestyle to establish their own profiles as separate listed entities with the abilities to access the debt and equity capital markets to fund their respective operations, future developments and investment opportunities.

## LISTING EXPENSES

Listing expenses include professional fees in relation to the listing of our Group. The total listing expenses in relation to the preparation for the Listing is expected to be amounted to approximately HK$24.6 million. The listing expenses amounted to approximately HK$2.8 million during the Track Record Period. The increase in listing expenses from approximately nil for the year ended 31 December 2014 to approximately HK$2.8 million for the year ended 31 December 2015 was due to the incurring of expenses (being mainly fees to professional parties) in relation to the preparation for the Listing.

## DIVIDEND

Our Shareholders will be entitled to receive dividends that we declare. We do not have a fixed dividend policy and the payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors deem relevant. In addition, our Controlling Shareholders will be able to influence the approval by our Shareholders in a general meeting for any payment of dividends.

For further information on our dividend, please refer to the paragraph headed "Dividend" in the section headed "Financial information" in this listing document.

## NON-COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, there were certain non-compliance incidents of our Group, namely, failure to (i) apply for a water pollution control license before commencing the discharge of commercial trade effluents into the communal foul sewer; (ii) apply for amendment to the construction project planning permit for changes in a construction design; (iii) make necessary filings to the county level government within 15 days after passing completion inspection of a construction project; (iv) complete construction project completion acceptance and inspection procedures within the requisite 6-month period; and (v) register lease agreements in the PRC with the relevant PRC authorities.

For further details of each of the above non-compliance incidents and the relevant rectification actions taken by our Group (including our enhanced internal control measures to prevent recurrence of the non-compliance incidents), please refer to the paragraph headed "Non-compliances" in the section headed "Business" of this listing document.

*In this listing document, unless the context otherwise requires, the following expressions shall have the following meanings.*

| | |
|---|---|
| "Ample Sun" | Ample Sun Group Limited (益良集團有限公司), a company incorporated in Hong Kong on 17 August 2007 with limited liability, of which our Group owns an effective equity stake of 60% after the Reorganisation |
| "Articles of Association" or "Articles" | the articles of association of our Company as currently adopted |
| "Asia Prime" | Asia Prime Assets Limited, a company incorporated in BVI on 28 December 2000 with limited liability, and wholly-owned by Mr. Thomas Lau as at the Latest Practicable Date |
| "associate(s)" | has the meaning ascribed to it in the Listing Rules |
| "Beauty Power" | Beauty Power Limited (美威有限公司), a company incorporated in BVI on 8 January 2007 with limited liability, and an indirect wholly-owned subsidiary of our Company after the Reorganisation |
| "Beiguo" | 北國商城股份有限公司 (Beiguo Shangcheng Company Limited*), formerly known as 石家莊北國商城有限責任公司 (Shijiazhuang Beiguo Shangcheng Company Limited*), an unlisted company limited by shares established in the PRC on 19 October 2001, of which our Group owns an effective equity stake of approximately 29.4% after the Reorganisation |
| "Beijing Huitong" | 北京匯通潤信貿易有限公司 (Beijing Huitong Runxin Trading Company Limited*), formerly known as 北京開元扶信置業有限公司 (Beijing Kaiyuan Fuxin Development Co., Ltd.*), a wholly corporate-owned enterprise established in the PRC on 1 February 2008 with limited liability, of which our Group owns an effective equity stake of 60% after the Reorganisation |
| "Beiren" | 石家莊北國人百集團有限責任公司 (Shijiazhuang Beiguo Renbai Group Company Limited*), a company established in the PRC on 21 March 2000 with limited liability, which our Group owns an effective equity stake of approximately 29.4% after the Reorganisation |
| "Beiren Group" | Beiren together with its subsidiaries |
| "Board" | the board of Directors |

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| "Business Day(s)" | any day(s) (other than Saturday(s) in Hong Kong) on which licensed banks in Hong Kong are open for banking business throughout their normal business hours |
| "BVI" | the British Virgin Islands |
| "CAGR" | compound annual growth rate |
| "Capitalisation Issue" | the issue by our Company to Lifestyle on the Distribution Record Date of such number of Shares required for the purpose of effecting the Distribution by way of capitalisation of all amounts due from our Company to Lifestyle as at the Distribution Record Date |
| "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 |
| "Charm Wave" | Charm Wave Limited (祥華有限公司), a company incorporated in Hong Kong on 26 October 2006 with limited liability, and an indirect wholly-owned subsidiary of our Company after the Reorganisation |
| "China" or "PRC" | the People's Republic of China, but for the purposes of this listing document and for geographical reference only (unless otherwise indicated) excluding Taiwan, Macau Special Administrative Region of the People's Republic of China and Hong Kong |
| "ChinaClear" | China Securities Depository and Clearing Corporation Limited |
| "CIC" | China Insights Consultancy Limited, an industry expert and independent third party, hired to conduct an analysis of, and to report on China's department store, supermarket and hypermarket market industry |

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| "CIC Report" | the report conducted by CIC on China's department store, supermarket and hypermarket market industry |
| "close associate(s)" | has the meaning ascribed to it in the Listing Rules |
| "Companies Law" or "Cayman Islands Companies Law" | the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands |
| "Companies Ordinance" | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) |
| "Company", "our Company", "we" or "us" | Lifestyle China Group Limited (利福中國集團有限公司) (formerly known as Lifestyle China Limited (利福中國有限公司)), the holding company of the Spin-off Group under the Spin-off, whose Shares are to be listed on the Main Board by way of introduction to be implemented by means of the Distribution, being an exempted company incorporated in the Cayman Islands on 4 January 2016 |
| "connected person(s)" | has the meaning ascribed to it in the Listing Rules |
| "Controlling Shareholder(s)" | has/have the meaning ascribed to it in the Listing Rules and, in the context of our Company, means United Goal which will hold 33.70% of the total issued share capital of our Company immediately following completion of the Spin-off and Mr. Thomas Lau, who apart from his interest held through United Goal, will also either directly or through Dynamic Castle hold another 17.99% of the total issued share capital of our Company immediately following completion of the Spin-off, based on their Shareholdings in Lifestyle on the Latest Practicable Date and assuming that they will remain unchanged on the Distribution Record Date |
| "core connected person(s)" | has the meaning ascribed to it in the Listing Rules |
| "Dalian Jiuguang" | Dalian Jiuguang department store, one of our managed stores and is owned by our Group, located at 11 Youhao Street, Zhongshan District, Dalian, Liaoning Province, the PRC |
| "Dalian Property" | a retailing property located at No. 11 Youhao Street, Zhongshan District, Dalian, Liaoning Province, the PRC |
| "Daning Project" | a commercial complex under development comprising sizeable retail premises, office buildings, and our Group's second department store in Shanghai under the Jiuguang Brand on the Jing'an Land |

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| "Deed of Indemnity" | a deed of indemnity dated 28 June 2016 and executed by Lifestyle in favour of our Company (for ourselves and as trustee for our subsidiaries stated therein) containing the indemnities as more particularly referred to in Appendix V to this listing document |
| "Director(s)" | the director(s) of our Company |
| "Distribution" | (subject to the Spin-off Condition being fulfilled) the payment of a special interim dividend by Lifestyle to the Lifestyle Shareholders to be satisfied:<br>(a) by way of distribution in specie of such number of Shares to the Lifestyle Qualifying Shareholders in the proportion of one Share for every one Lifestyle Share held by them as at the close of business on the Distribution Record Date; and<br>(b) by way of cash payment (after deducting expenses) to the Lifestyle Excluded Shareholders which equals to the net proceeds of the sale by Lifestyle on their behalf our Shares to which the Lifestyle Excluded Shareholders would otherwise be entitled to receive under the Distribution after dealings in the Shares commence on the Stock Exchange at the prevailing market price,<br>in either case, on the terms and conditions to be determined by the board of directors of Lifestyle. After the Distribution, our Company will cease to be a subsidiary of Lifestyle. For details of the Distribution, please refer to the paragraph headed "The Distribution" in the section headed "The Distribution and Spin-off" in this listing document |
| "Distribution Record Date" | 11 July 2016, being the record date for ascertaining entitlements to the Distribution |
| "Dynamic Castle" | Dynamic Castle Limited, a company incorporated in BVI on 16 June 2005 with limited liability, and wholly-owned by Mr. Thomas Lau as at the Latest Practicable Date |
| "EPD" | Environmental Protection Department of the Hong Kong government |
| "Excellent Global" | Excellent Global Limited, a company incorporated in BVI on 28 February 2002 with limited liability, and a direct wholly-owned subsidiary of our Company after the Reorganisation |

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| "Financial Information" | the combined financial information prepared from the financial information of our Group which is set forth in the Accountants' Report included as Appendix I to this listing document |
| "Freshmart Brand" | the brand of our supermarkets |
| "Future Mall" | 石家莊先天下廣場 (Shijiazhuang Future Mall*), formerly known as 先天下廣場 (Xian Tian Xia Square*), a retail shopping complex situated in Shijiazhuang, Hebei Province, the PRC |
| "Gainbest" | Gainbest Assets Limited, a company incorporated in BVI on 15 May 2002 with limited liability, and an indirect wholly-owned subsidiary of our Company after the Reorganisation |
| "GDP" | gross domestic product |
| "Global Top" | Global Top Limited (世高有限公司), a company incorporated in Hong Kong on 12 January 2006 with limited liability, and an indirect wholly-owned subsidiary of our Company after the Reorganisation |
| "Great Prosperity" | Great Prosperity Holding Inc., a company incorporated in BVI on 15 May 2002 with limited liability, and an indirect wholly-owned subsidiary of our Company after the Reorganisation |
| "Group", "we", "our" and "us" | our Company and its subsidiaries or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, the present subsidiaries of our Company, some or any of them |
| "Hebei Future Mall" | 河北北國先天下廣場有限責任公司 (Hebei Beiguo Future Mall Company Limited*), formerly known as 河北北國開元廣場有限責任公司 (Hebei Beiguo Kaiyuan Square Company Limited*), an equity joint venture enterprise between a PRC company and a Taiwan/Hong Kong/Macau company established in the PRC on 27 May 2005 with limited liability, which our Group owns an effective equity stake of approximately 44.40% after the Reorganisation |
| "Hebei Xuyuan" | 河北旭源投資有限公司 (Hebei Xuyuan Investment Company Limited*), formerly known as 河北旭源貿易有限公司 (Hebei Xuyuan Trading Company Limited*), a wholly corporate-owned enterprise established in the PRC on 23 November 2007 with limited liability, of which our Group owns an effective equity stake of 60% after the Reorganisation |
| "HKFRS" | Hong Kong Financial Reporting Standards issued by HKICPA |

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|---|---|
| "HKICPA" | Hong Kong Institute of Certified Public Accountants |
| "HKSCC" | Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited |
| "HKSCC Nominees" | HKSCC Nominees Limited |
| "HK$" or "Hong Kong dollars" or "cents" | Hong Kong dollars and cents respectively, the lawful currency of Hong Kong |
| "Hong Kong" or "HK" | the Hong Kong Special Administrative Region of the People's Republic of China |
| "Hong Kong Legal Advisers" | Sit, Fung, Kwong & Shum, being the legal advisers to our Company as to Hong Kong law |
| "Hong Kong Share Registrar" | Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar and transfer office of our Company |
| "Independent Third Party(ies)" | individual(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors' knowledge, information and belief having made all reasonable enquiries, is/are not connected with our Company or its connected person |
| "Introduction" | the listing of the entire issued share capital of our Company on the Stock Exchange by way of introduction |
| "J's Club" | the membership programme where its members (i.e. VIP Customers) can enjoy discount and earn points when making purchases of merchandise in our department stores |
| "Jing'an Land" | a piece of land of approximately 50,153.5 sq.m. located at Lot 33, 312 Street, Zhabei District (now known as Jing'an District), east to Gonghexin Road, south to Daning Road, west to Orient Pearl Apartment, north to Shanghai Circus World in Shanghai, the PRC |
| "Jiuguang Brand" | 久光 (Jiuguang*), the brand name of our department stores |
| "Joinbuy Group" | 上海九百(集團)有限公司 (Shanghai Joinbuy Group Co., Ltd.*), a company established in the PRC, which held 12% of the equity interest in Shanghai Joinbuy and 5% of the equity interest in Shanghai Ongoing as at the Latest Practicable Date |

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| "Joinbuy Investment" | 上海九百股份有限公司 (Shanghai Joinbuy Co., Ltd.*) a company established in the PRC, which held 38% of the equity interest in Shanghai Joinbuy and 30% of the equity interest in Shanghai Ongoing as at the Latest Practicable Date |
| "Kaiyuan Property" | 河北開元房地產開發股份有限公司 (Hebei Kaiyuan Real Estate Development Joint Stock Company Limited*), a company established in the PRC, an Independent Third Party, from which Beiren acquired 51% equity interest in Hebei Future Mall on 19 May 2008 |
| "Kaiyuan Trading" | 河北開元貿易有限公司 (Hebei Kaiyuan Trading Co., Ltd.*), formerly known as 河北開元貿易股份有限公司 (Hebei Kaiyuan Trading Securities Co., Ltd.*), a company established in the PRC |
| "Latest Practicable Date" | 23 June 2016, being the latest practicable date for the inclusion of certain information in this listing document prior to its publication |
| "Lifestyle" | Lifestyle International Holdings Limited (利福國際集團有限公司), a company incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 29 December 2003, whose shares are listed on the Main Board (stock code: 1212) |
| "Lifestyle China" | Lifestyle China Holdings Limited (利福中國控股有限公司) (formerly known as Lifestyle China Holdings Limited (利福中國集團有限公司)), a company incorporated in Hong Kong on 5 December 2007 with limited liability, and an indirect wholly-owned subsidiary of our Company after the Reorganisation |
| "Lifestyle (China) Investment" | 利福(中國)投資有限公司 (Lifestyle (China) Investment Co., Ltd.*), a wholly Hong Kong-corporate-owned enterprise established in the PRC on 11 September 2008 with limited liability, and an indirect wholly-owned subsidiary of our Company after the Reorganisation |

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| "Lifestyle (Dalian)" | 利福商廈(大連)有限公司 (Lifestyle Commercial Building (Dalian) Co., Ltd.*), formerly known as 大連遠東房地產有限公司 (Dalian Far East Real Estate Co., Ltd.*), 大連伊都錦大廈有限公司 (Dalian Itokin Building Company Limited*) and 大連伊都錦商廈有限公司 (Dalian Itokin Commercial Building Company Limited*), a wholly Hong Kong-corporate-owned enterprise (originally a sino-foreign equity joint venture enterprise) established in the PRC on 9 October 1993 with limited liability, and an indirect wholly-owned subsidiary of our Company after the Reorganisation |
| "Lifestyle Excluded Shareholder(s)" | the Lifestyle Overseas Shareholder(s) in relation to whom the board of directors of Lifestyle, after making relevant enquiries and based on the legal opinions provided by legal advisers, considers its/their exclusion from the entitlement to receive Share(s) under the Distribution to be necessary or expedient on account either of the legal restrictions under the laws of the relevant jurisdiction or the requirements of the relevant regulatory body or stock exchange in that jurisdiction |
| "Lifestyle Group" | Lifestyle and its subsidiaries before the Spin-off, which includes our Group |
| "Lifestyle Overseas Shareholder(s)" | Lifestyle Shareholder(s) whose addresses appear on the register of members of Lifestyle at the close of business on the Distribution Record Date and are in jurisdictions outside Hong Kong |
| "Lifestyle PRC Stock Connect Investor(s)" | the PRC southbound trading investor(s) through Shanghai-Hong Kong Stock Connect who hold Lifestyle Shares through ChinaClear as nominee |
| "Lifestyle Properties" | Lifestyle Properties Development Limited (利福地產發展有限公司), a company incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 5 January 2012, whose shares are listed on the Main Board (stock code: 2183) |
| "Lifestyle Properties Group" | Lifestyle Properties and its subsidiaries |
| "Lifestyle Qualifying Shareholder(s)" | Lifestyle Shareholders at the close of business on the Distribution Record Date other than the Lifestyle Excluded Shareholders |
| "Lifestyle Shareholder(s)" | holder(s) of the Lifestyle Shares |
| "Lifestyle Share(s)" | ordinary share(s) of HK$0.005 each in the share capital of Lifestyle |

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| "Lifu Plaza" | the property where Shenyang Jiuguang was located at |
| "Listing" | listing of the Shares on the Main Board |
| "Listing Committee" | the listing sub-committee of the board of directors of the Stock Exchange |
| "Listing Date" | the date on which dealings in our Shares on the Main Board commence |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Long Stop Date" | 22 July 2016 or such later date as the board of directors of Lifestyle may decide as the long stop date for the satisfaction of the Spin-off Condition |
| "Longji" | 龍記 (Longji*), restaurants in the PRC owned as to 50% by our Group and managed by a joint venture partner |
| "LP Non-compete Deed" | the deed of non-competition dated 26 August 2013 entered into between Lifestyle and Lifestyle Properties |
| "LP Spin-off" | the spin-off of Lifestyle Properties from Lifestyle in September 2013 |
| "Main Board" | the stock market operated by the Stock Exchange, which excludes Growth Enterprises Market of the Stock Exchange and the options market |
| "Majestic Eagle" | Majestic Eagle Limited, a company incorporated in BVI on 23 November 2015 with limited liability, and a direct wholly-owned subsidiary of our Company |
| "Memorandum of Association" or "Memorandum" | the memorandum of association of our Company as currently adopted |
| "Mr. Thomas Lau" | Mr. Lau Luen Hung, Thomas, the Chairman of our Board, an executive Director and the Chief Executive Officer of our Company, and the chairman and the non-executive director of Lifestyle and one of our Controlling Shareholders |
| "NBSC" | National Bureau of Statistics of China (中華人民共和國國家統計局) |
| "Newco Non-compete Deed" | the deed of non-competition dated 24 June 2016 entered into between our Company and Lifestyle Properties |

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| "Nice Union" | Nice Union Limited (麗滙有限公司), a company incorporated in Hong Kong on 25 November 2006 with limited liability, and an indirect wholly-owned subsidiary of our Company after the Reorganisation |
| "Ongoing (Suzhou)" | 久光百貨(蘇州)有限公司 (Ongoing Department Store (Suzhou) Limited*), a wholly foreign-owned enterprise established in the PRC on 17 January 2008, and dissolved upon merger with Suzhou Lifestyle Plaza in February 2015 |
| "Other Usages" | any other usages of our owned properties or relevant parts thereof which do not fall within the scope of the Permitted Usages |
| "O2O" | Online to Offline or Offline to Online platform business model, utilising online discovery and advocacy to promote offline sales |
| "Permitted Usages" | use of our owned properties or relevant parts thereof which are designated either for our department store operations or for purposes complementary to our department store operations or for our own use and occupation (including without limitation those used for the supermarkets, restaurants or other business operations by our Group and warehouses and offices used in connection with the business operations of our Group) |
| "PRC" | the People's Republic of China which, for the purpose of this listing document, shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan |
| "PRC GAAP" | Generally Accepted Accounting Principles in the PRC |
| "PRC Legal Advisers" | Zhong Lun Law Firm, a qualified PRC law firm acting as the PRC legal advisers to our Company for the application for Listing |
| "Property Valuer" | DTZ Cushman & Wakefield Limited, an independent property valuer |
| "Remaining Lifestyle Group" | Lifestyle and its subsidiaries after the Spin-off, which excludes our Group and the Lifestyle Properties Group |
| "Reorganisation" | the corporate reorganisation of our Group in preparation for the Listing as described under the section headed "Reorganisation" in this listing document |
| "RMB" | Renminbi, the lawful currency of PRC |
| "Royal China" | 金桂皇朝 (Royal China*), restaurants in the PRC owned as to 50% by our Group and managed by a joint venture partner |
| "SAFE" | State Administration of Foreign Exchange of the PRC (中華人民共和國國家外滙管理局) |

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| "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 our Company, with a par value of HK$0.005 each |
| "Shareholder(s)" | holder(s) of our Share(s) |
| "Shanghai — Hong Kong Stock Connect" | mutual order-routing connectivity and related technical infrastructure established by the Stock Exchange and Shanghai Stock Exchange to enable investors of their respective market to trade designated equity securities listed in the other's market |
| "Shanghai Jiuguang" | Shanghai Jiuguang department store, one of our managed stores and is owned by our Group located at 1618 Nanjing West Road, Jing'an, Shanghai, the PRC |
| "Shanghai Joinbuy" | 上海九百城市廣場有限公司 (Shanghai Joinbuy City Plaza Co. Ltd.*), an equity joint venture enterprise between a PRC company and Hong Kong company (originally a wholly corporate-owned enterprise) established in the PRC on 14 November 2002 with limited liability, of which our Group owns an effective equity stake of 50% after the Reorganisation |
| "Shanghai Joinbuy CityPlaza" | the property where Shanghai Jiuguang is located at |
| "Shanghai Lihaichao" | 上海利海超商業有限公司 (Shanghai Lihaichao Commercial Co., Ltd.*), a wholly-owned enterprise by a Hong Kong-corporate-owned investment company established in the PRC on 31 March 2012 with limited liability, and an indirect wholly-owned subsidiary of our Company after the Reorganisation |
| "Shanghai Liyida" | 利怡達商業置業(上海)有限公司 (Liyida Commercial Development (Shanghai) Co., Ltd.*), a wholly Hong Kong-corporate-owned enterprise established in the PRC on 23 April 2012 with limited liability, and an indirect wholly-owned subsidiary of our Company after the Reorganisation |
| "Shanghai Ongoing" | 上海久光百貨有限公司 (Shanghai Ongoing Department Store Limited*), a sino-foreign equity joint venture enterprise established in the PRC on 26 July 2004 with limited liability, of which our Group owns an effective equity stake of 65% after the Reorganisation |

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| "Shenyang Jiuguang" | Shenyang Jiuguang department store, one of our managed stores and is owned by our Group which was closed down in December 2015, located at No. 68 Zhongjie Road, Shenhe District, Shenyang, Liaoning Province, the PRC |
| "Shenyang Land" | a parcel of land located at Zhengyang Street West, Shenhe District, Shenyang City, the PRC covering a site area of approximately 23,076.20 sq.m. the land use rights of which are owned by our Group |
| "SKU" | stockkeeping unit, an identification, usually alphanumeric, of a particular product that allows it to be tracked for inventory purposes |
| "Smart Fortune" | Smart Fortune Assets Limited, a company incorporated in BVI on 22 April 2002 with limited liability, and an indirect wholly-owned subsidiary of our Company after the Reorganisation |
| "Sogo Hong Kong" | Sogo Hong Kong Company Limited (崇光(香港)百貨有限公司), a company incorporated in Hong Kong with limited liability on 23 September 1983, and an indirect wholly-owned subsidiary of Lifestyle which carries on department store business as at the Latest Practicable Date |
| "Spin-off" | the disposal of all Lifestyle's interest in our Company by way of a separate listing of our Shares on the Main Board, which is expected to be effected by way of Introduction to be implemented by means of the Distribution |
| "Spin-off Condition" | the condition to Listing, namely the Listing Committee granting the listing of, and permission to deal in, our Shares in issue as at the Distribution Record Date on the Main Board on or before the Long Stop Date |
| "Spin-off Group" | our Company and our subsidiaries after completion of the Reorganisation |
| "Sponsor" or "BNP Paribas" | BNP Paribas Securities (Asia) Limited, a licensed corporation under the SFO to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the sponsor of the Introduction |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited |
| "subsidiaries" | has the meaning ascribed thereto in section 15 of the Companies Ordinance |

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| "Suzhou Harmony" | 蘇州圓融發展集團有限公司 (Suzhou Harmony Development Group Co., Ltd.*), formerly known as 蘇州工業園區城市發展有限公司 (Suzhou Industrial Park Urban Development Co. Ltd.*), a company established in the PRC, an Independent Third Party, which, together with Charm Wave, established Suzhou Lifestyle Plaza under a joint venture agreement dated 22 January 2007 and eventually transferred its equity interest in Suzhou Lifestyle Plaza to our Group |
| "Suzhou Jiuguang" | Suzhou Jiuguang department store, one of our managed stores and is owned by our Group, located at 268 Wangdun Road, Suzhou Industrial Park, Suzhou, Jiangsu, the PRC |
| "Suzhou Land" | a plot of land situated between the north of Wangdun Road and the east of Huachi Street in Suzhou Industrial part, with a site area of approximately 53,192.77 sq.m. |
| "Suzhou Lifestyle Plaza" | 利福廣場(蘇州)有限公司 (Lifestyle Plaza (Suzhou) Co., Ltd.*), a wholly Hong Kong-corporate-owned enterprise (originally an equity joint venture enterprise between a PRC company and Hong Kong company) established in the PRC on 1 March 2007 with limited liability, and an indirect wholly-owned subsidiary of our Company after the Reorganisation |
| "Suzhou Ongoing" | 蘇州久光百貨有限公司 (Suzhou Ongoing Department Store Limited*), a wholly corporate-owned enterprise established in the PRC on 5 August 2015 with limited liability, and an indirect wholly-owned subsidiary of our Company after the Reorganisation |
| "Sweetolive" | 九桂居餐飲(上海)有限公司 (Sweetolive Catering (Shanghai) Co., Ltd.*), a wholly Hong Kong-corporate-owned enterprise established in the PRC on 10 August 2004 with limited liability, of which our Group owns an effective equity stake of 50% after the Reorganisation |
| "SY Foreversmart" | 瀋陽卓遠置業有限公司 (Shenyang Forever Smart Development Limited*), a wholly Hong Kong-corporate-owned enterprise established in the PRC on 1 December 2006 with limited liability, and an indirect wholly-owned subsidiary of our Company after the Reorganisation |
| "Takeovers Code" | The Hong Kong Codes on Takeovers and Mergers and Share Repurchase as amended, supplemented or otherwise modified from time to time |

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| "TL Parties" | Mr. Thomas Lau and United Goal and their respective close associates |
| "Track Record Period" | the three financial years ended 31 December 2015 |
| "United Goal" | United Goal Resources Limited, a company incorporated in BVI on 28 December 2000 with limited liability, which is ultimately owned as to 80% by Mr. Thomas Lau through Asia Prime and as to 20% by a family trust of which Mr. Lau Luen Hung, Joseph and certain of his family members are eligible beneficiaries as at the Latest Practicable Date and one of our Controlling Shareholders |
| "US" | the United States of America |
| "US$" or "US dollars" | United States dollars, the lawful currency of the US |
| "VIP Customers" | customers who are holders of J's Club card, our supermarkets membership card, or co-branded credit cards introduced by us in cooperation with certain banks in the PRC |
| "Vision Pilot" | Vision Pilot Group Limited, a company incorporated in BVI on 12 February 2002 with limited liability, and a direct wholly-owned subsidiary of Lifestyle as at the Latest Practicable Date |
| "Wa San Mai" | 和三昧 (Wa San Mai*), restaurants in Hong Kong and the PRC managed and owned by our Group |
| "Wa San Mai (Shanghai)" | 和三昧(上海)餐飲管理有限公司 (Wa San Mai (Shanghai) Catering Management Co., Ltd.*), a wholly Hong Kong-corporate-owned enterprise established in the PRC on 26 September 2008 with limited liability, and an indirect wholly-owned subsidiary of our Company after the Reorganisation |
| "Wingold" | Wingold Limited (捷金有限公司), a company incorporated in Hong Kong on 20 April 2007 with limited liability, of which our Group owns an effective equity stake of 60% after the Reorganisation |
| "Wise Fortune" | Wise Fortune Limited (百智有限公司), a company incorporated in Hong Kong on 18 September 2015 with limited liability, and an indirect wholly-owned subsidiary of our Company after the Reorganisation |
| "WPCO" | Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong) |

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| "Xiantianxia Development" | 河北先天下房地產開發有限責任公司 (Hebei Xiantianxia Real Estate Development Company Limited*), an Independent Third Party, a company incorporated in the PRC, from which our Group acquired 100% equity interest in Beijing Huitong on 9 February 2010 |
| "Xuheng" | 石家莊旭恒貿易有限公司 (Shijiazhuang Xuheng Trading Company Limited*), a wholly corporate-owned enterprise established in the PRC on 21 February 2008 with limited liability, of which our Group owns an effective equity stake of 60% after the Reorganisation |
| "Yishang Trading" | 河北益商貿易有限公司 (Heibei Yishang Trading Co., Ltd.*), a wholly-owned enterprise by a Taiwan/Hong Kong/Macau company established in the PRC on 11 March 2008 with limited liability, of which our Group owns an effective equity stake of 60% after the Reorganisation |
| "%" | per cent. |
| "$m^2$" or "sq.m." | square metres |

*Unless otherwise specified, for the purpose of this listing document and for the purpose of illustration only, Hong Kong dollar amounts have been translated using the following rates:*

*US$1.00 : HK$7.80*
*RMB1.00 : HK$1.20*

*No representation is made that any amounts in HK$, RMB or US$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.*

*For ease of reference, the names of certain PRC laws and regulations or the PRC established companies or entities have been included in this listing document in both the Chinese and English languages. The English names of these companies and entities are only English translation of their respective official Chinese names and they are denoted with "*". In the event of any inconsistency, the Chinese version shall prevail.*

*Any discrepancies between the total amount shown and the sum of the amounts listed in any table are due to rounding.*

*Investors should consider carefully all of the information set out in this listing document and, in particular, should evaluate the following risks and uncertainties which may adversely affect our business.*

*Our Directors believe that risks involved in our operations can be categorised into: (i) risks relating to our business; (ii) risks relating to the retail industry in the PRC; (iii) risks relating to the PRC; and (iv) risks relating to the Introduction.*

## RISKS RELATING TO OUR BUSINESS

### Our results of operations are largely affected by the performance of the Beiren Group, over which business we do not have control as we only have a minority interest in those entities

Our results of operations are largely affected by the performance of the Beiren Group, over which the business we do not have control as we only have a minority interest in those entities. We derive a substantial portion of our profit during the Track Record Period from our Investment in Beiren Group.

Please refer to the paragraph headed "Non-HKFRS measures" in the section headed "Financial information" in this listing document regarding contribution of our Investment in Beiren Group to our Group.

We do not control the business of any of the member companies of the Beiren Group as we only have a non-controlling interest in these entities. The retail business operations of the Beiren Group are susceptible to any decrease in demand and prices for their respective products or decline or recession in the economy. If the PRC economy experiences a slowdown, the prospects, business and results of operations of the Beiren Group would be adversely affected, which in turn will have a material and adverse effect on our results of operations. Therefore, we cannot assure you that our investment income from the equity-method investee will continue to contribute positively to our total profit in the future.

### We rely on our concessionaires to provide a variety of products and brands to generate a substantial amount of our turnover

We believe it is important to provide quality goods and services and to optimise brand mix to satisfy growing and changing consumer demand. We offer a variety of products to our customers largely through concessionaires of our department stores and supermarkets. For each of the three years ended 31 December 2015, our sales proceeds (net of tax) from concessionaire sales accounted for approximately 89.2%, 89.0% and 88.2%, respectively, of our total sales proceeds (net of tax), and our income from concessionaires sales accounted for approximately 57.6%, 57.4%, and 55.7%, respectively, of our turnover. Sales proceeds from the concessionaire sales is first collected by us on the concessionaire's behalf and then returned to the concessionaire on a monthly basis after deduction of all relevant expenses and commission. Thus, we do not receive sales proceeds but commission income under the arrangement with our concessionaires. The success of our business, therefore, depends to a significant extent on our relationships with our concessionaires. In the event that a significant number of major brand concessionaires terminate or fail to renew their contracts with us and we fail to find other suitable brand concessionaires as replacements, our sales and financial results could be adversely affected.

**Our success depends on our ability and the ability of our concessionaires to assess, identify and respond in a timely manner to constantly changing customer preferences**

Our business is subject to changing customer preferences. There can be no assurance that our merchandise selection, or that of our concessionaires, will accurately reflect customer preferences at any given time. If we or our concessionaires fail to assess accurately either the market for our merchandise or customers' purchasing or dining habits, our sales may be affected, which could have a material adverse impact on our business, financial condition and results of operations.

**If the development of our Daning Project deviates from our estimates due to unexpected circumstances, our business, results of operations and growth prospects may be adversely affected**

There may be additional costs from delays in the completion of our Daning Project or arising from changes to the compliance requirements under the PRC laws and regulations. After development of our Daning Project, there is no guarantee that it will be profitable or as profitable as we anticipate and/or a period may elapse between commencement and operations until it becomes profitable.

Our Daning Project may not achieve the desired sales and profitability levels, and the opening of an additional department store in an existing geographic market could cannibalise sales of our existing department store. We may not be able to continue to accurately assess and adjust to the consumer tastes, preferences and demands in the existing market, and we may incur higher costs in terms of lease, administration, distribution, logistics and advertising costs associated with the opening of a new department store, which may lead to insufficiency of our capital resource. In addition, our Daning Project will strain our management, manpower, operational, financial and other resources.

In the event that the actual time and costs incurred and/or reception in our Daning Project deviates from our estimates due to unexpected circumstances, our business, results of operations and growth prospects may be adversely affected.

**Failure to successfully promote our brand or maintain our goodwill may materially and adversely affect our business and results of operations**

Brand image is a key factor in a consumer's decision to purchase at our department stores, restaurants and supermarkets. We believe that part of our business success derives from our customers' awareness of and their continued positive reception towards our Jiuguang Brand, "Wa San Mai" brand, and Freshmart Brand. Furthermore, market acceptance of our brands is essential for successful expansion and may affect the profitability of our operations from the establishment of new stores in developing areas.

Going forward, if we are unsuccessful in continuing to promote the image of our Jiuguang Brand, "Wa San Mai" brand, and Freshmart Brand, or fail to maintain the goodwill of such brands among our targeted consumer groups, market perception and consumer acceptance of such brands may be eroded, in which case our business, financial condition and results of operations may be materially and adversely affected.

**We depend on key management personnel and may not be able to retain and attract talented personnel, and the loss of members of our senior management team may disrupt our business**

Our ability to sustain growth and meet future business demands is dependent upon the continued services of a solid and experienced senior management. However, we cannot assure you that we will be able to manage our expansion by retaining our existing executives and other experienced personnel and/or by recruiting additional appropriate employees, as competition for such personnel is and is likely to continue to be intensive.

Our success has been, and will continue to be, heavily dependent upon the strategies and vision of our key management team, including members of our Board and our senior management team. Further information on our Directors and senior management is set forth in the section headed "Directors, senior management and staff" in this listing document. Most of them have played a pivotal role in our daily operations and are responsible for formulating strategies to deal with the changing market environment. Any unanticipated departure of our key management personnel or other members of the senior management could have a material adverse impact on our business.

**VIP Customers account for a meaningful portion of our total sales proceeds**

We rely on a substantial portion of our sales on VIP Customers including customers who are J's Club members or supermarkets members, or owners of the co-branded credit cards introduced by us in cooperation with certain banks in the PRC.

Sales to VIP Customers have accounted for a meaningful and increasing portion of our total sales proceeds. For each of the three years ended 31 December 2015, sales to VIP Customers accounted for approximately 26.5%, 30.5%, and 31.1% respectively, of our sales proceeds (net of tax). There is no assurance that our VIP Customers will continue to visit and purchase from our department stores and/or that promotional efforts will continue to be welcomed by VIP Customers, in which case our turnover and financial results could be adversely affected.

**If we cannot manage the risks related to our growth strategy, our future prospects may be limited and our future profitability could be affected**

We opened our first department store under the Jiuguang Brand in Shanghai in 2004. Since then, we have expanded into China's retail industry and operated a total of three department stores in the PRC as at the Latest Practicable Date while we plan to continue to expand our retail network in the PRC. However, there can be no assurance that our expansion strategy or the implementation of our plans will be successful, such as the cessation of the operation of Shenyang Jiuguang. There are a number of factors affecting our ability to open or acquire new department stores, restaurants or supermarkets including the availability of suitable sites, sufficient human resources, direct sales suppliers and concessionaires, skilled personnel, consumer demand, our ability to obtain the requisite government approvals in a timely manner and our ability to finance the expansion.

We may not be able to effectively integrate any new department store, restaurant or supermarket into our existing operations, and newly opened or acquired department stores, restaurants or supermarkets may not achieve our desired sales and profitability levels. In addition, our expansion will continue to increase demand on our management, operational, financial and other resources. If we are unable to manage our growth effectively, our future profitability may be adversely affected.

**Our growth depends on our ability to locate and maintain suitable properties for our department stores, restaurants or supermarkets, which may become more difficult or expensive in the future**

Our ability to purchase or lease suitable properties on commercially viable terms will be crucial to the success of our expansion strategy. If we are unable to secure desirable properties, we may not be able to achieve our expansion as planned, and our continued growth may be adversely affected. Given the scarcity of prime and convenient locations and their relatively higher rental rates, we cannot assure you that we will be able to secure such desirable locations on acceptable terms for deployment of our new department stores, restaurants or supermarkets. Failure to successfully locate and operate our future department stores, restaurants or supermarkets at desirable locations may slow down our growth in sales, and hence, may negatively affect our future growth.

**Our department store business is susceptible to seasonal fluctuations**

Our direct sales and concessionaire sales are subject to seasonal fluctuations. A high proportion of our sales is typically recorded in the period between November and February in the following year that covers major festivals and holidays such as Chinese New Year and Christmas. As a result of these fluctuations, comparisons of sales and operating results between different periods within a single financial year, or between different periods in different financial years, are not necessarily meaningful and cannot be relied on as indicators of our performance. Any seasonal fluctuations reported in the future may not match expectations of our investors and this could cause the trading price of our Shares to fluctuate.

**Acts of God, acts of war and other disasters could affect our business**

Our business is subject to the general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people of the PRC. Certain cities in the PRC are under the threat of flood, earthquake, sandstorm or drought. Our business, operating results and financial condition may be adversely affected if such natural disasters occur in places where we operate.

Acts of war and terrorist attacks may cause damage or disruption to us, our employees, our department stores, restaurants and supermarkets, our markets and our customers, any of which could adversely impact our turnover, cost of sales, overall results and financial condition or Share price. Potential war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot currently predict.

**Our subsidiaries in the PRC are subject to restrictions on paying dividends and making other payments to us**

Our Company is a holding company incorporated in the Cayman Islands and do not have any business operations other than the investments in our subsidiaries. We rely entirely on dividend payments from our subsidiaries which are mainly located in the PRC. Under PRC laws, dividends may be paid only out of distributable profits. Our subsidiaries in the PRC are also required to set aside a portion of their after-tax profits to set off accumulated losses and to fund the statutory common reserve fund, as determined in accordance with local regulations and requirements. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. The calculation of distributable profits under PRC GAAP may differ from the calculation under HKFRS. As a result, our operating subsidiaries in the PRC may not be able to pay any dividend in a given year if they do not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under HKFRS. In addition, restrictions on conversion or remittance of funds outside the PRC could limit the ability of our subsidiaries in the PRC to distribute dividends to us. Please refer to the paragraph headed "We are subject to PRC government controls on currency conversion" below for further information. Since a majority of our profits are derived from our operating subsidiaries in the PRC, our ability to pay dividends to our Shareholders may be restricted.

**Our business may be adversely affected by potential labour disputes and rising labour costs**

We may be constrained by any industrial actions, labour disputes or strikes. We cannot assure you that we will be able to avoid or manage the occurrence of any such industrial actions, labour disputes or strikes in the future. The occurrence of any of the foregoing may have a material adverse effect on our business, financial condition and results of operations.

In recent years, average labour costs in the PRC have increased due to recent policies of the PRC government to raise the minimum wage for workers. In addition, the PRC government has promulgated a series of new labour laws, rules and regulations (such as the PRC Labour Contract Law promulgated on 29 June 2007 and further amended on 28 December 2012), which impose greater liabilities on employers and make it more costly for employers to reduce the size of their workforce. In the event we decide to significantly change or decrease our workforce in the PRC, the applicable PRC labour laws, rules and regulations could materially and adversely affect our ability to enact such changes in a manner that is most advantageous to our circumstances or in a timely and cost effective manner, thus our results of operations could be materially and adversely affected.

Our staff costs have increased during the Track Record Period. Going forward, we are of the view that staff costs will continue to increase, which is in line with the economic growth in the PRC. Further changes in the labour laws, rules and regulations similar to the PRC Labour Contract Law may be promulgated by the PRC government in the future and our operations may be materially and adversely affected.

**The appraised value of our properties in Shenyang and Shanghai may be different from their actual realisable value and are subject to uncertainty or change**

The property valuation report set out in Appendix III to this listing document with respect to the appraised value of our properties in Shenyang and Shanghai are based on various assumptions, which are subjective and uncertain in nature. The assumptions that DTZ Cushman & Wakefield Limited used in the property valuation report include: (i) transferable land use rights in respect of the properties for their specific terms at nominal annual land use fees have been granted and that any premiums payable have already been fully paid; and (ii) owners have enforceable titles to the properties and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the unexpired terms as granted. Certain of the assumptions used by DTZ Cushman & Wakefield Limited in reaching the appraised value of our properties in Shenyang and Shanghai may be inaccurate. Hence, the appraised value of our properties should not be taken as their actual realisable value or a forecast of their realisable value. Unexpected changes to our properties in Shenyang and Shanghai and to the national and local economic conditions may affect the value of these properties. You should not place undue reliance on such appraised value attributable to these properties by DTZ Cushman & Wakefield Limited.

## RISKS RELATING TO THE RETAIL INDUSTRY IN THE PRC

**The department store and supermarket business is highly competitive and we face further competition from multiple retail formats**

We believe that the PRC retail industry, in particular the operation of department stores and supermarkets, is highly competitive. We are not only facing direct competition from other international and domestic operators of department stores but also indirect competition from specialty stores and new retail formats such as online/mobile retail, O2O, shopping centres and outlets. Any increase in competition or price-wars waged by competitors will have a negative impact on our sales and profitability.

The success of our department stores, particularly with respect to our target market being middle to upper end, depends mainly on consumers' demand which is a function of their personal preferences, their shopping patterns, their disposable income, their confidence in the economy and many other factors beyond our control. There can be no assurance that our customers will continue to shop at our department stores. Any change in customer demand due to changes in economic conditions and consumer confidence could materially and adversely affect our operations and financial results. The recent general economic downturn in the PRC has restrained consumer spending, which may negatively affect sales at our department stores. If the downturn of the PRC economy continues, consumer spending may be further reduced potentially causing our overall financial results to be adversely affected.

For further discussion on competition in the PRC retail industry, please refer to the section headed "Industry overview" in this listing document.

**Online retailing and concessionaires moving out of our department stores may affect our business, financial condition and results of operations**

The general trend of the retail industry in China includes the emergence of retail formats and wide acceptance of online retailing. The online-retails are becoming a hot topic of China's retail sales market. The convenience and competitive price of online retails attract the younger generation of Chinese consumers and online retails are becoming widely accepted by the public. With various kinds of new retail formats, concessionaires may reduce its demand for space in our department stores. Further, concessionaires may move out of our department stores or open their own standalone stores. These could have a material adverse effect on our business, financial condition and results of operations.

Internet sales have developed rapidly in recent years along with the significant increase in the number of internet users. According to the Ministry of Commerce of the PRC, in 2015, total online retail sales value of consumer goods was approximately RMB3.2 trillion, representing approximately 10.6% of total retail sales value of consumer goods. There are currently a large number of online sales platforms and online retailers in a wide range of product categories catering to consumers. Online retailers may sell the same products at discounted prices as they generally have lower fixed costs compared with physical department stores and supermarkets. We face increasing competition from online retailers and there is no guarantee that our customers would not choose online retailers due to their pricing advantage.

Our attempts to remain competitive in the market by our marketing and promotional activities may not succeed and may increase our costs. Additionally, if our attempt to remain competitive fails and our market share shrinks, our business and financial condition may be adversely affected.

**Wrongdoing by our employees and/or third parties using our prepaid cards may harm our business**

We issue prepaid cards which are a form of currency substitutes and may be used for the purchase of merchandise in our department stores. The issue of prepaid cards is a common practice in the PRC for department stores. There have been news articles concerning corrupt practices where prepaid cards are used by third parties to bribe others. We are unable to prevent third parties from such practices and may therefore be involved in or associated with litigation concerning such bribery or corruption by our staff and/or third parties using our prepaid cards.

Such wrongdoing may harm our reputation and if we are deemed to be responsible for such misconduct, we could be required to pay damages or fines. We may be unable to prevent, detect or deter all such instances of bribery or corruption and other misconduct. Such instances committed against our interests, which may include past acts that have gone undetected or future acts, may also have a material adverse effect on our business, results of operation and financial condition.

**We require a number of regulatory licenses and approvals in order to operate our department stores, supermarkets and restaurants**

Our retail operations are subject to a significant number of licenses, permits and approvals, including those relating to fire prevention and public health. Our ability to continue to operate our department stores, supermarkets and restaurants and to successfully implement our expansion strategies into other locations is dependent upon our ability to obtain, maintain and renew (where necessary) the relevant regulatory approvals under PRC laws. If we are unsuccessful in obtaining and renewing such regulatory approvals or such approvals are suspended or revoked due to any incident happening in our department stores, restaurants or supermarkets or any changes in PRC laws or policies or the implementation thereof, we may be required to suspend or even prohibited from continuing our operations, and we may have to expend considerable time and costs in order to sustain our business.

For further information on the licenses, permits or approvals required for operation of our business, please refer to the section headed "Regulatory overview" in this listing document.

**Our business and reputation may be affected by product liability claims for defective goods sold in our department stores or food safety concerns for foods unfit for human consumption sold in our supermarkets or restaurants**

According to existing PRC laws, a defective product which causes property damage or physical injury to any person may subject the vendor of such product to civil liability. This law renders us liable for loss or injury arising from defective products we sell at our department stores and supermarkets, including merchandise sold by concessionaires. Further information on the Consumer Protection Law is set forth in the paragraph headed "Consumer Protection Law" in the section headed "Regulatory overview" in this listing document.

In general, our concessionaires provide us with a written indemnity covering the full extent of any third party liability we incur through their operations and sales made in our department stores or supermarkets. We cannot assure you that we will be successful in obtaining such indemnity payment or that the indemnity payment will cover all of our costs associated with the original liability. Furthermore, if we or our concessionaires are found to be responsible for damages caused by defective goods, our reputation may be adversely affected.

The sale of our food products at our supermarkets or restaurants involves an inherent risk of being found to be unfit for human consumption, causing illness or failing to pass third-party test. Food products may be rendered unfit for consumption due to product contamination or degeneration, illegal tampering by unauthorised third parties or other problems arising during the various stages of procurement, production transportation and storage. According to existing PRC laws, violation of laws on food safety may result in civil liability. Further information on the Food Safety Law is set forth in the paragraph headed "Food Safety Law" in the section headed "Regulatory overview" in this listing document.

**We may incur liability for merchandise sold in our department stores or supermarkets that infringe the intellectual property rights of others**

We and our concessionaires source merchandise worldwide. Our standard agreement with concessionaires requires that neither the names of concessionaire stores nor the merchandise sold by them may infringe intellectual property rights, or in any other way be unlawful. In addition, our concessionaires shall neither display nor sell any prohibited or illegal merchandise. Our standard supply agreement with direct sales suppliers also provides that the merchandise sold by them do not infringe intellectual property rights. In the event that we directly sell infringing goods or our concessionaires sell infringing goods at our department stores or supermarkets, we may be found liable for infringement of intellectual property rights and be compelled to pay damages or penalties. Our concessionaires and direct sales suppliers provide us with written indemnities covering the full extent of any third party liability that we may incur through their operations and sales made in our department stores or supermarkets. There can be no assurance that we can successfully obtain any such indemnity payment or that the indemnity payment will fully cover all of our costs associated with the original liability. If any claims alleging infringement of intellectual property rights are brought against us or our concessionaires, our reputation may also be damaged.

**The Group had net current liabilities during the Track Record Period**

Our Group recorded net current liabilities of approximately HK$6,776.3 million, HK$6,685.6 million and HK$6,948.5 million as of 31 December 2013, 2014 and 2015, respectively. Please refer to the paragraph headed "Net current liabilities and working capital sufficiency" in the section headed "Financial information" in this listing document for details of the reversal of net current liability position of our Group after the Reorganisation.

There is no assurance that our Group's previous net current liability position will not impair its ability to make necessary capital expenditures or develop business opportunities.

**We are exposed to risks in relation to the increase in interest rate, gearing ratio and depreciation expense**

The effective interest rates of the borrowings of our Group ranged from approximately 5.9% to approximately 7.0% per annum, approximately 5.4% to approximately 6.6% per annum, and approximately 4.3% to approximately 5.2% per annum for each of the three years ended 31 December 2015, respectively. There is no assurance that the People's Bank of China and other institutions will not increase the lending rate. A significant increase in the interest rates of our Group's loans from the prevailing rates will substantially increase our Group's finance costs, which could adversely affect our Group's business, expansion plans and financial conditions.

Our Group's gearing ratio (bank borrowings) was approximately 16.1%, 20.8% and 32.2% as at 31 December 2013, 2014 and 2015, respectively. Our Group's gearing ratio (all borrowings) was approximately 266.6%, 264.2% and 289.8% as at 31 December 2013, 2014 and 2015, respectively. In the case that our Group seeks additional financing or further drawdown of the existing bank facilities, our Group's gearing ratio may increase.

It is expected that the depreciation expenses incurred by our Group will increase upon completion of our Daning Project as depreciation of buildings commences to be recognised when they are available for use. In the event that our depreciation expenses increase substantially, our business and financial performance may be adversely affected.

**Any relevant anti-bribery and anti-corruption laws against the use of prepaid cards may materially and adversely affect our business operation**

Like other industries, our industry is subject to anti-bribery and anti-corruption laws and regulations and relevant laws and regulations on prepaid cards. In the PRC, where we operate the majority of our business and where most of our turnover is generated from, we must strictly comply with the PRC criminal laws and other applicable regulations, which prohibit companies and their intermediaries from making improper payments or other benefits to government officials or other parties for the purpose of obtaining or retaining business. In particular, the use of prepaid cards as a form of gifting is subject to the relevant laws and regulations in the PRC. Detailed information on the relevant laws and regulations are set forth in the paragraph headed “Prepaid cards” in the section headed “Regulatory overview” in this listing document.

We sell prepaid cards at Shanghai Jiuguang and Suzhou Jiuguang. Relevant anti-bribery and anti-corruption laws, coupled with the relevant government campaign in the PRC targeting at bribery or corruption in relation to issues, sales and uses of prepaid card by our customers, which may be beyond our control, may impact the demand for prepaid cards, and may thereby affect the sales and the use of prepaid cards to purchase merchandise in our department stores. This would have a material adverse effect on our business, financial condition and results of operations.

**Operating lease commitment and the impact of the application of Hong Kong Financial Reporting Standard (“HKFRS”) 16**

HKFRS 16 was issued by the HKICPA in May 2016. It will be effective for annual periods beginning on or after 1 January 2019. This new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. The new standard maintains substantially the lessor accounting requirements in the current standard.

A lessee is required to recognise a right-of-use asset and a lease liability at the commencement of lease arrangement. Right-of-use asset includes the amount of initial measurement of lease liability, any lease payment made to the lessor at or before the lease commencement date, estimated cost to be incurred by the lessee for dismantling or removing the underlying assets from and restoring the site, as well as any other initial direct cost incurred by the lessee. Lease liability represents the present value of the lease payments. Subsequently, depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of Hong Kong Accounting Standard 16 (Property, Plant and Equipment), while lease liability will be increased by the interest accrual, which will be charged to profit or loss, and deducted by lease payments.

The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

At the end of 31 December 2015, operating lease commitment of the Group in respect of commercial properties with terms more than 12 months amounted to approximately HK$1,511.8 million. The adoption of HKFRS 16 is not expected to have significant impact on the Group's results, but it may impact our combined statement of financial position as certain portion of these lease commitments will be required to be recognised as right-of-use assets and lease liabilities.

## RISKS RELATING TO THE PRC

### Any downturn in the PRC economy may slow down our growth and profitability

Substantially all our business assets and operations are in the PRC, and substantially all of our turnover is derived from our operations in the PRC. Our growth is dependent on consumer spending patterns in the PRC, which, in turn, are affected by the macro-economic conditions of the PRC. We believe that PRC consumers tend to spend more when the economy is experiencing strong growth and when they have more disposable income for personal consumption. As a result, the state of the economy in the PRC has a significant impact on our historical and future performance, operational results and profitability. Furthermore, although the PRC government has implemented economic reform measures emphasising responsiveness to market forces in the development of the PRC economy, the PRC government continues to play a significant role in regulating industries by imposing industrial policies. Changes in the PRC's political and social conditions, laws, regulations, policies and diplomatic relationships with other countries may have a material adverse effect on the business or financial condition of our Group.

### Changes in the economic and political environment in the PRC and policies adopted by the PRC government to regulate its economy may adversely affect our business, operating results and financial condition

Since 1978, the PRC government has been pursuing economic reform policies that encourage the utilisation of market forces and greater economic decentralisation. Annual and five-year state plans are adopted by the PRC government in connection with the development of the economy. Although state-owned enterprises still account for a substantial portion of the PRC's industrial output, in general, the PRC government is reducing the level of direct control which it exercises over the economy through state plans and other measures. There is an increasing level of freedom and autonomy in areas such as allocation of resources, production and management and a gradual shift in emphasis to a "market economy" and enterprise reform. We cannot assure you that the PRC government will continue to pursue a policy of economic reform. Moreover, we may not in all cases be able to capitalise on the economic reform measures adopted by the PRC government.

Our operations and financial results could be adversely affected by changes in political, economic and social conditions or the relevant policies of the PRC government, such as changes in laws and regulations (or the interpretations thereof), measures which might be introduced to control inflation, changes in the rate or method of taxation, imposition of additional restrictions on currency conversion and the imposition of additional import restrictions.

**There may be uncertainties with respect to the application and enforcement of Circular No. 7 newly promulgated by the PRC State of Administration of Taxation**

In February 2015, the PRC State Administration of Taxation has promulgated the Announcement on Certain Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (Circular No. 7 by State Administration of Taxation in 2015) (or "**Circular No. 7**"), which abolished certain provisions in the Notice on Strengthening the Administration of Enterprises Income Tax on Non-Resident Enterprises (《關於加強非中國居民企業股權轉讓所得企業所得稅管理的通知》) (Guoshui Han [2009] Circular No. 698) (or "**Notice No. 698**") issued by the PRC State Administration of Taxation in December 2009, and provided clarification on Notice No. 698. In short, Circular No. 7 provides comprehensive guidelines relating to and heightens the PRC tax authorities' scrutiny over indirect transfers by a non-resident enterprise of assets (including equity interests) of PRC resident enterprises.

Under Circular No. 7, when a non-resident enterprise (not including individuals or PRC resident enterprises) transfers the assets (including equity interests) in an overseas holding company, which directly or indirectly owns PRC taxable properties ("**PRC Taxable Assets**"), including shares in a PRC company, for the purposes of avoiding PRC enterprise income taxes through an arrangement without reasonable commercial purpose, such indirect transfer should be reclassified and recognised to be a direct transfer of the assets (including equity interests) of a PRC resident enterprise in accordance with the Enterprise Income Tax Law, unless the overall arrangements relating to an indirect transfer of PRC Taxable Assets fulfill one of the following conditions:

(i) where a non-resident enterprise derives income from the indirect transfer of PRC Taxable Assets by acquiring and selling equity interests of a listed overseas company on a public market; and

(ii) where the non-resident enterprise had directly held and transferred such PRC Taxable Assets, the income from the transfer of such PRC Taxable Assets would have been exempted from enterprise income tax in the PRC under an applicable tax treaty or arrangement.

Therefore, a Shareholder buying and selling our Shares on a public market after Listing is unlikely to be considered to indirectly transfer equity interest or other assets in any of our PRC subsidiaries held by our Company. Although the exemptions above are clarified in Circular No. 7, as Circular No. 7 was newly implemented and only became effective in February 2015, there is limited guidance and practical experience regarding the application and enforcement of Circular No. 7 and the related notices and it remains uncertain whether such exemptions will be applicable to the transfer of our Shares or whether any future acquisition by us outside of the PRC involving PRC Taxable Assets will be reclassified by applying Circular No. 7. Therefore, the PRC tax authorities may deem any transfer of our Shares by our Shareholders that are non-resident enterprises, or any future acquisition by us outside of the PRC involving PRC Taxable Assets, to be subject to the foregoing regulations, which may subject our Shareholders or us to additional PRC tax reporting obligations or tax liabilities. Any such outcome could have a material adverse effect on our business, financial condition, results of operations and prospects.

**Fluctuation of RMB may adversely affect our operations and financial results**

Almost all of our turnover and operating expenses are denominated in RMB, a currency not freely convertible into other currencies, except under certain circumstances. The value of RMB against other foreign currencies is subject to amendment by the PRC government. From 1997 until 20 July 2005, the medium rate at which the RMB was convertible into US dollars was fixed by the People's Bank of China at a stable rate of approximately RMB8.277 per US dollar. Since 2005, the PRC government has reformed the exchange rate regime by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. This change in policy has resulted in a significant appreciation of RMB against US dollar. On 11 August 2015, the People's Bank of China announced that it would request market-makers in the foreign exchange market to provide proposed quotes of the midpoint rates of the daily trading band of RMB against US dollar based on supply and demand analysis and market conditions of the exchange rates of other currencies. The People's Bank of China has also introduced a series of measures to facilitate the reform of RMB exchange rate regime, including the introduction of financial derivative products such as currency swaps, the relaxation on RMB trading by non-financial institutions and the introduction of market makers, comprising both domestic and foreign banks, for the trading of RMB. It is difficult to predict how market forces or PRC or US government policy may impact the exchange rate between the RMB and the US dollar. There can be no assurance that the exchange rate will remain stable against the US dollar or any other foreign currencies in the future. Any significant change in the exchange rates of RMB against the US dollar or the Hong Kong dollar could adversely affect the results of our operations and the value of our dividends, which would be funded by RMB but paid in Hong Kong dollars.

**We are subject to PRC government controls on currency conversion**

We receive a substantial portion of our turnover in RMB which is currently not a freely convertible currency. A portion of our turnover must be converted into other currencies in order to meet our foreign currency obligations including payment of declared dividends to our Shareholders.

Under PRC's existing foreign exchange regulations, by complying with certain procedural requirements, our PRC subsidiaries are generally able to convert their RMB into foreign currency in order to distribute dividends to us without prior approval from the SAFE. However, in the future, the PRC government may, at its discretion, take measures to restrict access to foreign currencies for current account transactions under certain circumstances. In this case, our PRC subsidiaries may not be able to pay dividends to us and we in turn may be unable to pay dividends to our Shareholders.

**The PRC legal system is less developed than that in certain other jurisdictions and embodies inherent uncertainties that could limit the legal protection available to us and to our Shareholders**

Substantially all of our operations are conducted in the PRC. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. In recent years, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, due to the reason that these laws and regulations are relatively new, and there is only a limited number of published cases that are non-binding in nature, interpretation and enforcement of these laws and regulations involve uncertainties which may lead to further uncertainty for our business operations.

**Our operations may be affected by the outbreak of any severe infectious disease in the PRC**

Our operations may be affected by the outbreak of any severe infectious diseases in the PRC. Past occurrences or the fear of outbreaks (such as concerning Severe Acute Respiratory Syndrome ("**SARS**"), H1N1 influenza ("**H1N1**"), Influenza A virus H7N9 ("**H7N9**") and avian flu ("**H5N1**")) may have a material and adverse effect on consumer spending and business sentiments in the PRC in general. Given that during the Track Record Period, most of our business operations are located in Shanghai, Suzhou and Dalian in the PRC, any slowdown or contraction in economic activity in the PRC may materially and adversely affect our financial condition and growth prospects. Furthermore, if any of our suppliers, concessionaires, department stores, supermarkets or restaurants are suspect of being a source for such disease or any of our employees or customers are suspected of having contracted such diseases, we may suffer a temporary suspension of our retail operations and the effect on our operations that entails.

**Our business may not be able to pursue the intended use of civil air defense properties if the same are used by the PRC government and may, as a result, suffer a loss of income**

According to Law of the People's Republic of China on National Defense (《中華人民共和國國防法》), Civil Air Defense Law of the People's Republic of China (《中華人民共和國人民防空法》), Property Law of the People's Republic of China (《中華人民共和國物權法》), Measures of the Development and Utilisation of Civil Air Defense Construction during Peacetime (《人民防空工程平時開發利用管理辦法》), Several Opinions regarding Further Advancing the Development of Civil Air Defense by the State Council and the Central Military Commission (《國務院、中央軍委關於進一步推進人民防空事業發展的若干意見》), the construction of new buildings in cities should contain certain basements that may be used for civil air defense purposes in time of war. Under the Civil Air Defense Law of the PRC, while an investor in civil air defense properties can use and manage civil air defense properties and derive profit from civil air defense properties in times of peace, such use must not impair their functions as civil air defense properties. The design, construction and quality of the civil air defense properties must also conform to the protection and quality standards established by the PRC government.

An aggregate area of approximately 2,627 sq.m. located in Shanghai Jiuguang and an aggregate area of approximately 25,198 sq.m. of our Daning Project property in construction were designated as civil air defense areas, the design planning proposals of which have been approved by the civil air defense authorities of the PRC government. Subject to obtaining the permit for use of civil air defense areas in peace time (人防工程平時使用證) or the written confirmations from the competent authorities upon completion of construction, these civil air defense areas are intended to be used by the business primarily as car parking spaces in peace time. If the civil air defense areas are used by the PRC government in the event of war, we may not be able to pursue the intended use and such areas will no longer be used for our business. The occurrence of any of the above could materially and adversely affect the business, financial condition and results of operations of the business.

## RISKS RELATING TO THE INTRODUCTION

### Our share price may be volatile

The market price and trading volume of our Shares may be volatile. Factors such as variations in our turnover, earnings and cash flows, changes in or challenges to our business, announcements of new investments or acquisitions, the depth and liquidity of the market for our Shares, investors' perceptions of our Company and general political, economic, social and market conditions in the PRC or Hong Kong could cause the market price of our Shares to change substantially. In addition, shares of other companies listed on the Stock Exchange with significant operations in the PRC have experienced substantial price volatility in the past, and it is possible that our Shares will be subject to changes in price that may not be directly related to our financial and business performance.

### The shareholding of our Shareholders may be diluted as a result of future equity fundraising

We may need to raise additional funds in the future to finance our expansion or for other reasons. If additional funds are raised through the issuance of new equity or equity-linked securities other than on a pro rata basis to our then current Shareholders, the percentage ownership of individual Shareholders will be reduced. Any such new securities may have preferential rights or options that favour their holders over holders of Shares, to the extent permitted by law, exchange rules and our constitutional documents.

### Forward-looking statements contained in this listing document are subject to risks and uncertainties

This listing document contains certain statements and information that are "forward-looking" and uses forward-looking terminology such as "anticipate", "believe", "could", "expect", "estimate", "intend", "may", "ought to", "should" or "will." Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Investors of our Shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be incorrect and as a result, the forward-looking statements based on those assumptions could also be incorrect. The risks and uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this listing document should not be regarded as representations by us that our plans and objectives will be achieved and investors should not place undue reliance on such forward-looking statements.

**Our Company is incorporated under Cayman Islands law and these laws may provide less protection to minority shareholders than the laws of Hong Kong**

Our corporate affairs are governed by our Memorandum of Association and Articles of Association and by the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. Such differences may mean that our minority Shareholders may have less protection than they would have under the laws of Hong Kong for shareholders who have been unfairly prejudiced by the conduct of the company's affairs. A summary of Cayman Islands company law is set out in Appendix IV to this listing document.

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

## WAIVER FROM STRICT COMPLIANCE WITH CHAPTER 14A OF THE LISTING RULES

Our Group has entered into, and will continue to carry on certain transactions, which would constitute continuing connected transactions that will become subject to the reporting, annual review, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules after Listing. Further particulars about the transactions together with the application for a waiver from strict compliance with the relevant requirements under Chapter 14A of the Listing Rules are set out in the section headed "Continuing connected transactions" in this listing document.

## WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

According to Rule 8.12 of the Listing Rules, all applicants applying for a primary listing on the Stock Exchange must have sufficient management presence in Hong Kong, normally meaning that at least two of the applicant's executive directors must be ordinarily resident in Hong Kong. As our Company only has and, for the foreseeable future, will only have one executive Director, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules, subject to the conditions that, among other things, we maintain the following arrangements to maintain effective communication between us and the Stock Exchange.

Our Company has appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, namely Mr. Thomas Lau, our sole executive Director, and Mr. Poon Fuk Chuen, our company secretary, who will act at all times as the principal channel of communication with the Stock Exchange. Mr. Thomas Lau and Mr. Poon Fuk Chuen are ordinarily residents in Hong Kong and are readily contactable by telephone, email and/or facsimile. They are and will be able to deal promptly with any enquiries which may be raised by the Stock Exchange and to act at all times as the principal channels of communication between our Company and the Stock Exchange.

Each of our authorised representatives has all necessary means for contacting all members of our Board and the senior management of our Company promptly at all times as and when the Stock Exchange wishes to contact them on any matters. Upon completion of the Spin-off, our Board will consist of one executive Director, one non-executive Director and three independent non-executive Directors, all being ordinarily resident in Hong Kong. Each Director will provide his/her mobile phone number, office phone number, e-mail address and facsimile number to the Stock Exchange. If in the future any Director is not ordinarily resident in Hong Kong, such Director will possess or will apply for valid travel documents to visit Hong Kong and will meet with the Stock Exchange within a reasonable period as and when required.

Our Company has, in compliance with Rule 3A.19 of the Listing Rules, appointed KGI Capital Asia Limited to act as our compliance adviser. The term of the appointment of the compliance adviser shall commence on the Listing Date and end on the date of despatch of our Group's annual report in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

Our compliance adviser will, among other things, act as an additional and alternative channel of communications for our Company with the Stock Exchange and be available to answer enquiries from the Stock Exchange, in addition to our authorised representatives. We will ensure that there are adequate and efficient means of communication among us, our authorised representatives, Directors, other officers, and the compliance adviser.

Our Company's headquarter and principal place of business in Hong Kong is at 20th Floor, East Point Centre, 555 Hennessy Road, Causeway Bay, Hong Kong. Both authorised representatives will use this place of business for communication with the Stock Exchange.

## DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS LISTING DOCUMENT

This listing document includes particulars given in compliance with the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) (as amended) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this listing document. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this listing document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this listing document misleading.

This listing document is published in connection with the Introduction. It may not be used for any other purpose and, in particular, no person is authorised to use or reproduce this listing document or any part thereof in connection with any offering, or invitation to the offer, of our Shares or other securities of our Company. Accordingly, there is no, and will not be any, offer of or solicitation, or an invitation by or on behalf of our Company and our Sponsor to subscribe for or purchase any of our Shares. Neither this listing document nor any other document or information (or any part thereof) delivered or supplied under or in relation to the Introduction may be used for the purpose of making, and the delivery, distribution and availability of this listing document or such other document or information (or any part thereof) does not constitute, any offer of or solicitation or an invitation by or on behalf of our Company and our Sponsor to subscribe for or purchase any of our Shares.

## APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

Application has been made to the Listing Committee for granting listing of, and permission to deal in, on the Main Board, our Shares in issue following the Capitalisation Issue. Dealings in our Shares on the Stock Exchange are expected to commence on 15 July 2016. Save as disclosed herein, none of our Shares are listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

## ABOUT THE INTRODUCTION

The Introduction does not involve an offering of new Shares or any other securities and no new proceeds will be raised pursuant to the Introduction. By undertaking the Introduction on the Stock Exchange, we seek to avail the Lifestyle Qualifying Shareholders (except for any Lifestyle Overseas Shareholders) with a liquid public market for our Shares.

## COMMENCEMENT OF DEALINGS IN OUR SHARES

Dealings in our Shares on the Main Board are expected to commence on 15 July 2016. Our Shares will be traded on the Main Board in board lots of 500 Shares each.

## SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, our 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 our Shares on the Stock Exchange or on any other date HKSCC chooses. 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 our Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisers.

## NO CHANGE IN THE NATURE OF BUSINESS

No change in the nature of business of our Group is contemplated following the Introduction.

## HONG KONG STAMP DUTY

Dealings in Shares registered in the Hong Kong share register kept by our Company are subject to Hong Kong stamp duty.

## PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the purchasing, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares, you should consult an expert. It is emphasised that none of our Company, our Sponsor, any of their respective directors, agents, employees, advisers or affiliates or any other person or party involved in the Introduction accepts responsibility for any tax effects on, or liabilities of, any person resulting from the purchasing, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

## CONDITIONS OF THE INTRODUCTION

The Introduction is subject to the fulfillment of the Spin-off Condition.

## SPIN-OFF

The Spin-off and the Introduction will be implemented in compliance with the Listing Rules and Practice Note 15 of the Listing Rules. As the Spin-off will be effected by way of introduction with no new offering of new Shares or any other securities, there will be no dilution of the indirect attributable interest of the Lifestyle Qualifying Shareholders.

## DIRECTORS

| Name | Residential address | Nationality |
|---|---|---|
| ***Executive Director*** | | |
| Mr. Thomas Lau (劉鑾鴻先生) | G/F Coombe Apartments<br>15–17 Coombe Road<br>The Peak, Hong Kong | Canadian |
| ***Non-executive Director*** | | |
| Ms. Chan Chor Ling, Amy (陳楚玲小姐) | Flat H, 17/F, Block 1 Tanner Garden<br>18 Tanner Road<br>North Point, Hong Kong | Chinese |
| ***Independent non-executive Directors*** | | |
| Ms. Cheung Mei Han (張美嫻小姐) | Flat D, 3/F, Seaview 2 Parkridge<br>Crescent Parkridge Village<br>Discovery Bay Lantau<br>New Territories, Hong Kong | Chinese |
| Mr. Cheung Yuet Man, Raymond (張悅文先生) | 12A Henderson Road<br>Jardine's Lookout, Happy Valley<br>Hong Kong | Chinese |
| Mr. Lam Kwong Wai (林光蔚先生) | Flat A, 7/F, Block 3<br>Site 9 Whampoa Garden, Hung Hom<br>Kowloon, Hong Kong | Chinese |

Further information is disclosed in the "Directors, senior management and staff" section.

## PARTIES INVOLVED IN THE INTRODUCTION

| | |
|---|---|
| **Sponsor** | BNP Paribas Securities (Asia) Limited<br>59/F to 63/F Two International Finance Centre<br>8 Finance Street<br>Central<br>Hong Kong |
| **Auditors and reporting accountants** | Deloitte Touche Tohmatsu<br>35th Floor, One Pacific Place<br>88 Queensway<br>Hong Kong |
| **Legal advisers to our Company** | *as to Hong Kong law*<br>Sit, Fung, Kwong & Shum<br>9/F York House<br>The Landmark<br>15 Queen's Road<br>Central<br>Hong Kong<br><br>*as to PRC law*<br>Zhong Lun Law Firm<br>36–37F, SK Tower, 6A Jianguomenwai Avenue<br>Chaoyang District<br>Beijing, China 100022<br><br>*as to Cayman Islands law*<br>Conyers Dill & Pearman<br>Cricket Square<br>Hutchins Drive<br>P.O. Box 2681<br>Grand Cayman KY1-1111<br>Cayman Islands |
| **Legal advisers to the Sponsor** | *as to Hong Kong law*<br>Chiu & Partners<br>40th Floor, Jardine House<br>1 Connaught Place<br>Central<br>Hong Kong<br><br>*as to PRC law*<br>Commerce & Finance Law Offices<br>6F NCI Tower, A12 Jianguomenwai Avenue<br>Chaoyang District<br>Beijing, The PRC |

| | |
|---|---|
| **Property valuer** | DTZ Cushman & Wakefield Limited<br>16/F Jardine House<br>1 Connaught Place<br>Central<br>Hong Kong |
| **Compliance adviser** | KGI Capital Asia Limited<br>41st Floor<br>Central Plaza<br>18 Harbour Road<br>Wanchai<br>Hong Kong |
| **Industry expert** | China Insights Consultancy Limited<br>Room 1203, Shanghai International Group Building<br>511 Weihai Road, Jing'an District<br>Shanghai, The PRC |

# CORPORATE INFORMATION

| | |
|---|---|
| **Registered office** | Cricket Square, Hutchins Drive<br>PO Box 2681<br>Grand Cayman KY1-1111<br>Cayman Islands |
| **Headquarter and principal place of business in Hong Kong** | 20th Floor, East Point Centre<br>555 Hennessy Road<br>Causeway Bay<br>Hong Kong |
| **Authorised representatives** | Mr. Thomas Lau<br>G/F Coombe Apartments<br>15–17 Coombe Road<br>The Peak, Hong Kong<br><br>Mr. Poon Fuk Chuen *(CPA)*<br>House 7<br>Napa Avenue<br>Royal Palms Phase A<br>Wo Shang Wai<br>Yuen Long<br>New Territories<br>Hong Kong |
| **Company secretary** | Mr. Poon Fuk Chuen *(CPA)* |
| **Audit committee** | Mr. Lam Kwong Wai *(Chairman)*<br>Ms. Cheung Mei Han<br>Mr. Cheung Yuet Man, Raymond |
| **Remuneration committee** | Mr. Lam Kwong Wai *(Chairman)*<br>Ms. Cheung Mei Han<br>Mr. Cheung Yuet Man, Raymond<br>Mr. Thomas Lau |
| **Nomination committee** | Mr. Thomas Lau *(Chairman)*<br>Ms. Cheung Mei Han<br>Mr. Cheung Yuet Man, Raymond<br>Mr. Lam Kwong Wai |
| **Compliance adviser** | KGI Capital Asia Limited |
| **Website of our Company** | www.lifestylechina.com.hk* |
| **Principal share registrar and transfer office in the Cayman Islands** | Royal Bank of Canada Trust Company (Cayman) Limited<br>4th Floor, Royal Bank House<br>24 Shedden Road<br>George Town<br>Grand Cayman KY1-1110<br>Cayman Islands |
| **Hong Kong Share Registrar** | Computershare Hong Kong Investor Services Limited<br>Shops 1712–1716, 17th Floor, Hopewell Centre<br>183 Queen's Road East, Wanchai, Hong Kong |

| | |
|---|---|
| **Principal bankers** | Agricultural Bank of China (Shanghai Branch)<br>No. 9, Yincheng Road, Pudong New Area, Shanghai |
| | Industrial and Commercial Bank of China<br>(Shanghai Branch)<br>699 Kangding Road, Jing'an District, Shanghai, the PRC |
| | Bank of China (Hong Kong) Limited<br>10/F, Bank of China Tower, 1 Garden Road, Hong Kong |

* *The contents of the website of our Company do not form part of this listing document.*

*The information presented in this section is derived from various official government publications and other publications and from the market research report prepared by CIC, which was commissioned by us, unless otherwise indicated. We believe that the sources of such information are appropriate sources for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information that would qualify, contradict or have a material impact on such information since the date of the CIC Report. The information has not been independently verified by our Company, our Sponsor, any of our or their respective directors, officers or representatives or any other person involved in the Introduction and no representation is given as to its accuracy. The information and statistics may not be consistent with other information and statistics compiled within or outside China.*

## THE ECONOMY IN THE PRC

### Economic growth

China's nominal GDP and per capita nominal GDP have experienced continuous growth and are expected to sustain a long-term growth. China's nominal GDP grew from approximately RMB40.7 trillion in 2010 to approximately RMB68.4 trillion in 2015. While the real GDP growth rate has slowed down since 2013, along with the transition of consumption pattern and the upgrade of economy, a consumption-driven economy is much more sustainable. The focus on the development of consumption-driven economy is expected to be the major goal of the PRC government in the future. Retail sales as one of the important components of China's economy is expected to be stimulated accordingly. According to International Monetary Fund, China's nominal GDP is expected to sustain a long-term growth with the real GDP annual growth rate would range from approximately 6.0% to approximately 6.5% for the next five years and further reach RMB98.0 trillion in 2020.

Per capita nominal GDP has risen significantly from approximately RMB30,321.3 in 2010 to approximately RMB49,753.7 in 2015, with a CAGR of approximately 10.4%. CIC projects that the continuous increasing per capita nominal GDP is expected to further stimulate the consumption and retail sales.

With increasing income levels, people are willing to spend more on retail sales of variety of goods. China's department store market and supermarket market as major components of China's retails sales market are expected to benefit from the increasing per capita nominal GDP of China. China's per capita nominal GDP is expected to grow further to approximately RMB69,527.1 by 2020, with a CAGR of approximately 6.9% from 2015 to 2020.

### Urbanisation

China has also experienced a rapid urbanisation rate, a trend expected to continue in the next five years. China has the world's largest population and is expected to maintain a steady growth in the future.

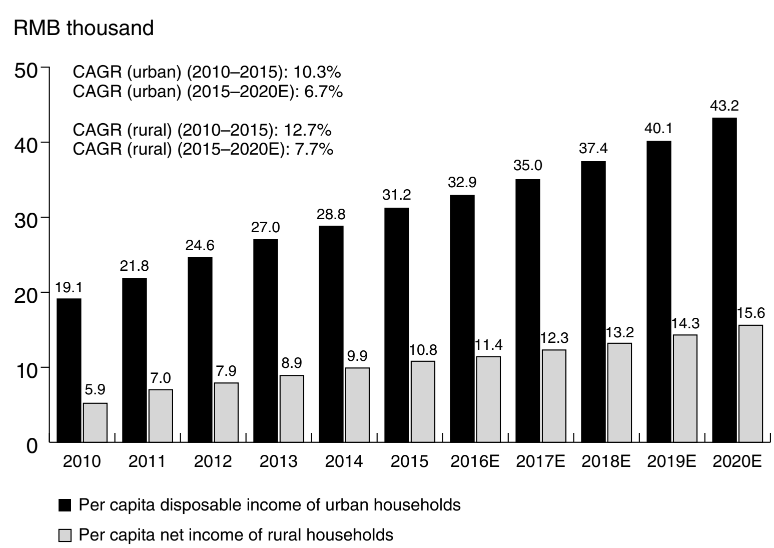
According to the United Nations, China's population totalled approximately 1,401.6 million in 2015, with a CAGR of approximately 0.6% since 2010 and China's urban population totalled approximately 779.5 million in 2015 with an urbanisation rate of approximately 55.6%. Around 20.0 million people moved into cities every year from 2010 to 2015. The Chinese government has been accelerating the urbanisation process by increasing investment, and urbanisation rate is expected to reach around 61% by 2020. The increasing urbanisation rate presents an optimistic impact on retail sales as major department stores are usually located in urban regions.

**Growth in consumers' spending power**

The increase in the wealth of people has fuelled the people's consumption for better living standard. Per capita disposable income of urban households in China increased from approximately RMB19,100 in 2010 to approximately RMB31,200 in 2015, with a CAGR of approximately 10.3%. Per capita net income of rural households in China increased from approximately RMB5,900 in 2010 to approximately RMB10,800 in 2015, with a CAGR of approximately 12.7%.

According to NBSC, China's Engel's Coefficient (the proportion of income spent on food of urban households) decreased to approximately 35.2% for urban households and approximately 37.7% for rural households in 2015. The decreasing number indicated that people's consumption has been shifted from food to more recreational goods such as clothing and cosmetics. Thus, department stores and supermarket market is expected to be driven by the increasing per capita disposable income of Chinese households.

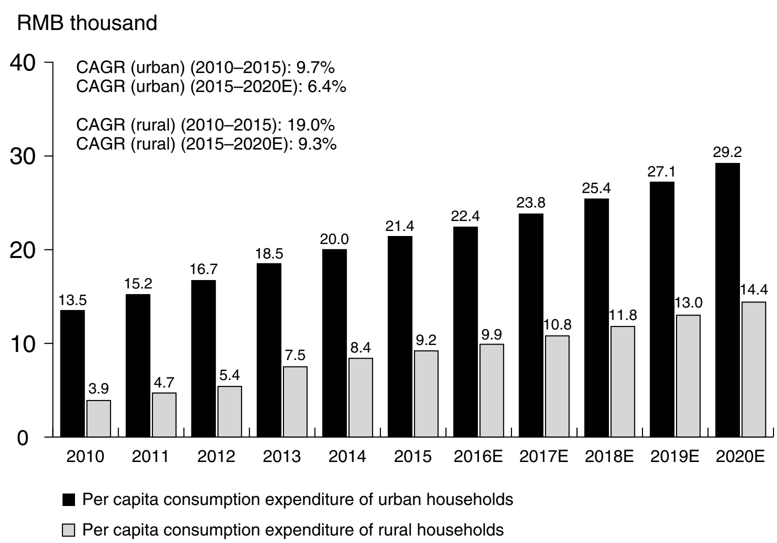
Per capita disposable income of urban households and net income of rural households in China are expected to further reach approximately RMB43,200 in 2020 with a CAGR of approximately 6.7% from 2015 to 2020 and approximately RMB15,600 in 2020 with a CAGR of approximately 7.7% from 2015 to 2020, respectively. The following chart sets forth China's per capita disposable income of urban households and net income of rural households for the periods indicated:




*Source: NBSC, CIC*

Per capita consumption expenditure of urban households in China increased from approximately RMB13,500 in 2010 to approximately RMB21,400 in 2015, with a CAGR of approximately 9.7%. Per capita consumption expenditure of rural households in China increased from approximately RMB3,900 in 2010 to approximately RMB9,200 in 2015, with a CAGR of approximately 19.0%. Both have experienced a rapid growth in accordance with the increasing per capita disposable income. It also reflects the further improvement of people's livelihood and the enhancement of purchasing power. Thus, related industries such as department stores, supermarkets and hypermarkets are estimated to benefit from the increasing per capita consumption expenditure in China.

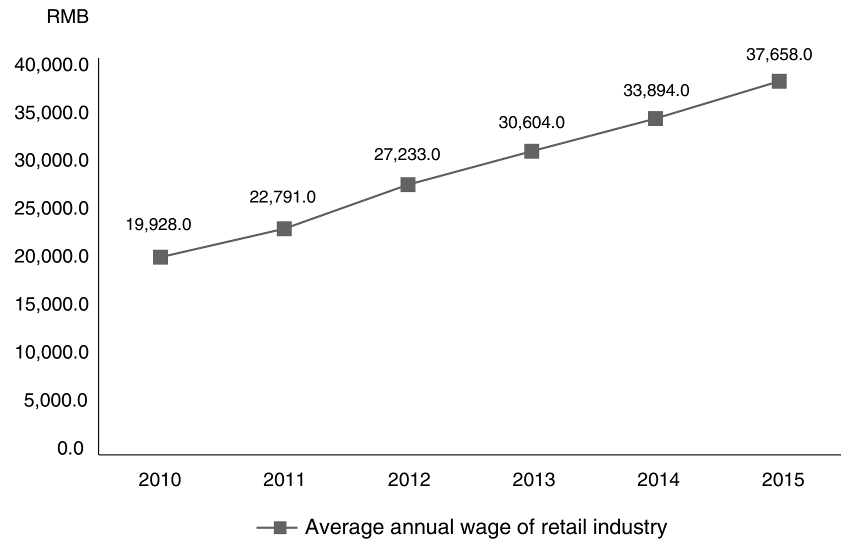
China's per capita consumption expenditure of urban and rural households are both expected to further reach approximately RMB29,200 with a CAGR of approximately 6.4% from 2015 to 2020 and approximately RMB14,400 with a CAGR of approximately 9.3%, respectively. The following chart sets forth China's per capita consumption expenditure of urban and rural households for the periods indicated:




*Source: NBSC, CIC*

**Labour cost of the retail industry in the PRC**

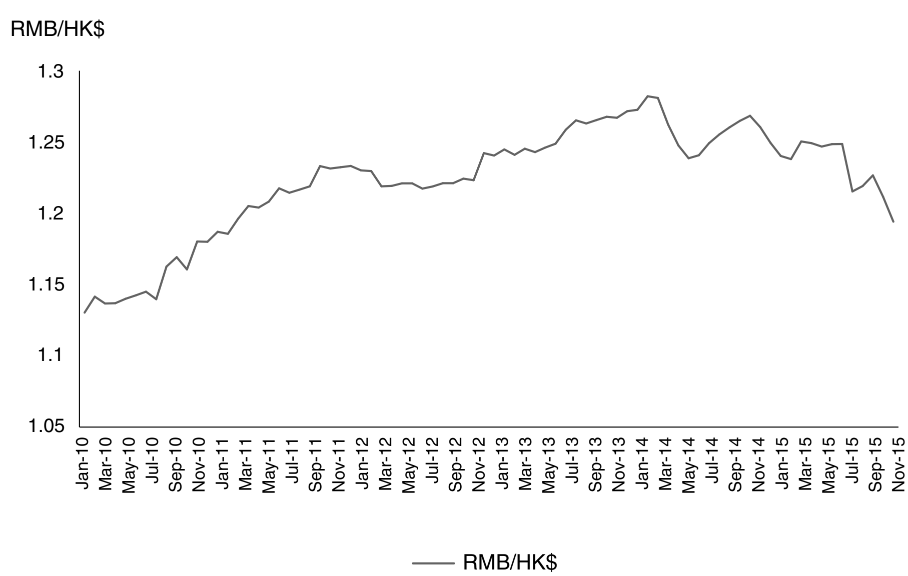
In line with the increasing living expenditure and overall economic growth, the labour cost of the retail industry in PRC increased rapidly during the past few years. According to NBSC, the average annual wage of the retail industry in the PRC increased from approximately RMB19,928.0 in 2010 to approximately RMB37,658.0 in 2015, representing a CAGR of approximately 13.6% (as illustrated in the diagram below). With the PRC government's further emphasis on the importance of the improvement of people's livelihood, it is expected that the average annual wage of retail industry in the PRC will continue to increase. However, as the economy of the PRC is becoming more mature, the growth rate is likely to slow down in the forecast period. The following chart sets forth the average annual wage of retail industry in the PRC for the period indicated:




*Source: NBSC*

**Fluctuations of RMB**

Exchange rate of RMB against HK$ increased steadily until the end of 2013 and decreased since then. The following chart sets forth the exchange rate of RMB against HK$ for the periods indicated:

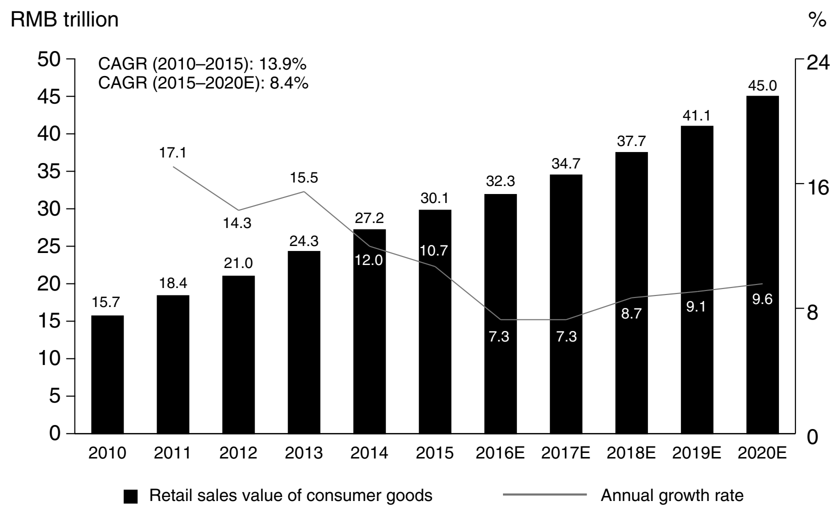



*Source: The People's Bank of China*

## THE RETAIL INDUSTRY IN THE PRC

### Overview

The retail sales of consumer goods has grown at a CAGR of approximately 13.9% between 2010 and 2015, and is expected to grow at a CAGR of approximately 8.4% from 2015 to 2020. The retail sales value of consumer goods has been improved due to the increasing per capita disposable income as well as the upgrade of China's economy structure towards consumption-driven economy. As a large proportion of retail sales of consumer goods occur in department stores and supermarkets, both of these two industries are expected to continue their growth in the future. The following chart sets forth China's retail sales value of consumer goods for the periods indicated:




*Source: NBSC, CIC*

The general trend of the retail industry in China includes the emergence of retail formats, wide acceptance of online retailing, and adoption of an O2O business model. With the development of economy, the development of technology and the adoption of reform and opening-up policy presented by the Chinese government, all kinds of retail formats have been emerging in China such as shopping centres, hypermarkets, online retailers and department stores. These retail formats act as essential drivers of China's retail sales market.

The online-retails are becoming a hot topic of China's retail sales market. The convenience and competitive price of online retails attract the younger generation of Chinese consumers and online retails are becoming widely accepted by the public. With the development of technology and mobile Internet, the concept of O2O business model is adopted by not only online-retailers but also off-line retailers. By incorporating the O2O concept idea in business model, corporations should be able to obtain competitive advantage and better serve customers, and ultimately gain a higher market share. Notwithstanding the changing trend of the retail industry, department store remains an important retail format.

The middle to upper-end segment of the retail industry in the PRC experienced a rapid growth during the past few years. As the disposable income per capita had been increasing during the past few years, more people chose to purchase middle to upper-end goods because of quality and value. Furthermore, unlike the low-end segment of the retail industry in the PRC which was severely impacted by online retail during the recent years, most of the purchases of middle to upper-end products were made via offline channels such as department stores and shopping malls. Although online retail is seeing a rapid growth, the majority of the purchase of consumer goods was still identified in offline retail channel. According to the Ministry of Commerce of the PRC, in 2015, total online retail sales value of consumer goods was approximately RMB3.2 trillion, representing approximately 10.6% of the total retail sales value of consumer goods. On the other hand, consumers pay more attention to the shopping experience and customer service when they purchase middle to upper-end goods, thus offline retail channel is advantageous in such characteristics comparing to online retail channel. Furthermore, most middle to upper-end brands do not offer official online retail option in China. The number of middle to upper-end brands that can be purchased from official online channel was less than 10% in 2015. Therefore, most consumers still purchase these brands through offline retail channel such as department store, outlets and shopping centres.

The middle to upper-end segment of the retail industry in the PRC is relatively fragmented. Most department stores and shopping malls are located in large developed cities with higher income level. The following chart represents the top 10 department stores/shopping malls in terms of single store retail sales value.

| **Department store/Shopping mall (location)** | **2015 store retail sales value** *RMB'billion* |
|---|---|
| Shin Kong Plaza (Beijing) | 7.8 |
| Deji Plaza (Nanjing) | 7.0 |
| The MIXC (Shenzhen) | 6.2 |
| Hangzhou Tower (Hangzhou) | 5.7 |
| China World Mall (Beijing) | 5.2 |
| IFC Mall (Shanghai) | 5.0 |
| Shanghai No.1 Yohan (Shanghai) | 4.6 |
| CDF Mall (Sanya) | 4.3 |
| Qingpu Outlets (Shanghai) | 4.2 |
| Yansha Outlets (Beijing) | 4.1 |

*Source: CIC*

**Department stores in the PRC**

The retail sales value of China's department stores increased from approximately RMB723.2 billion in 2010 to approximately RMB1,188.3 billion in 2015, representing a CAGR of approximately 10.4% for the period.

Department store is the primary choice of customers for shopping. China's department store market experienced a rapid growth during the past decades ever since the reform and opening up policy presented by the PRC government. The continuous increasing per capita disposable income and population provided a large potential for the market. Furthermore, with the livelihood being improved, people are more willing to spend on retail goods consumption. However, with the development of online retailing and the emergence of shopping mall, department store is expected to slow down its growth momentum in the next few years.

*Market drivers of China's department store industry*

The market drivers of China's department store industry include the increasing urbanisation and per capita disposable income, the upgrade of consumption structure towards high quality goods, leisure experience provided by department stores and the development of larger developing cities.

The urbanisation in China which continues to improve provides a large customer base for department store market. With the announcement of the universal two-child policy in 2015, it is expected that the population may gain another growth momentum in the next few years, which is estimated to boost the growth of department store as well. The increasing per capita disposable income of households in China is also driving the department store industry to keep growing as the purchasing power is improved accordingly.

With the increasing income level, the consumption structure of Chinese households is upgrading towards premium goods which are usually for sale in department stores. Comparing with basic needs, people are more willing to spend time and enjoy the shopping experience provided by department store. Such preference is estimated to further drive the department store industry to sustain growth. Shopping in a department store is not only a shopping experience as modern department stores usually provide leisure experience as well (e.g. interacting with others inside the assorted restaurants and coffee shops of the department stores). Thus, customers with social needs prefer to shop in department stores which are expected to stimulate the further growth of department store market.

As the department store market has become mature in developed cities such as Beijing and Shanghai, large department store groups are expanding to larger developing cities to achieve further growth. The emerging market in larger developing cities is expected to further drive the department store industry to keep growing.

*Market trends of China's department store industry*

The market trends of China's department store industry include larger selling space per store and wider ranges of products, the emerging of O2O business model, the shift in department stores to direct sales model and the focus on better customer experience. Although the total number of department stores decreased during the recent year, average selling space of department stores has increased. In order to stay competitive in the retail sales market, department stores carry a wider range of products and provide food service in store. Both of these two changes require larger selling space of a single department store.

With the ability of providing offline customer service and merchandising service and advantage of existing customer base and inventory control system, traditional department stores possess a competitive advantage comparing to pure online retailers. A growing number of department store groups such as Yintai, Wangfujin, and New World are adopting the O2O business model in order to stay competitive in the retail sales market. The offline in-store shopping experience provides competitive advantages for department store in competing with online retailers.

Though the concessionary sales model has been adopted by department stores for decades in China, more department stores are shifting back to direct sales model as it generates a relatively higher profit margin. By shifting back to direct sales model, department stores are able to differentiate themselves in the market and stay competitive as well.

A good shopping experience usually highly depends on outstanding customer experience such as shopping environment and convenience. In order to stand out among department store market as well as other channel of merchandising, the focus on better customer service has been another trend for market participants.

*Market challenges of China's department store industry*

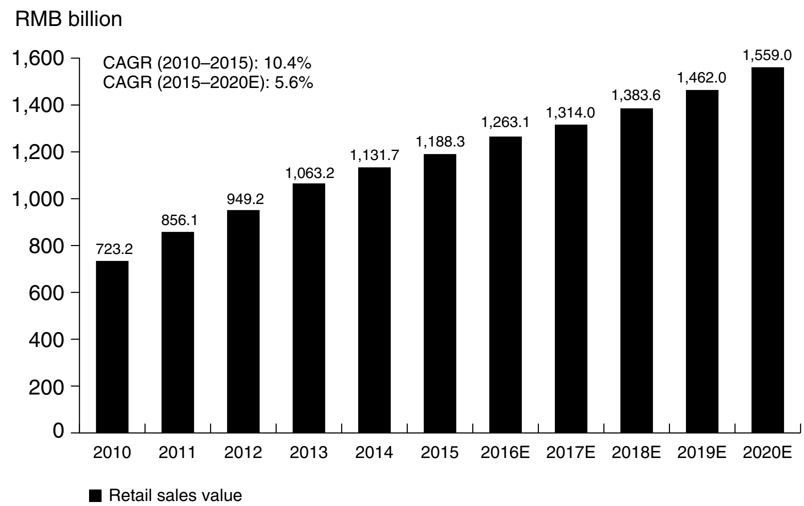
The market challenges of China's department store industry include the slowdown of China's economy growth, impact from new retail formats, and increasing labour and real estate costs. China's macroeconomy is maturing and the nominal GDP ranked the second place in the world in 2015, and the growth rate of China's macroeconomy is expected to slow down in the next few years. As a result, the growth rate of department store market is forecast to slow down accordingly.

Department stores had been the first and somehow the only choice for shopping in China twenty years ago. However, along with the technology development and consumer behaviour change today, department stores are facing the competition from new retail formats such as online retail, shopping centres and outlets. Among all these, online retail possesses the most influential impact on department stores. In order to overcome the challenge, department stores are developing O2O business model aiming to ease the impact.

The operation of department store is highly capital intensive with large investment in real estate and the daily cost of store staff. The labour cost and real estate cost in China has been increasing during recent years, which has brought another challenge for China's department store operators.

*Future growth*

In light of the market drivers and challenges, there is still future growth as the retail sales value of China's department store industry is expected to reach approximately RMB1,559.0 billion in 2020, with a CAGR of approximately 5.6% during 2015 to 2020. The following chart sets forth China's retail sales value and forecast of department store industry for the periods indicated:




*Source: China Commerce Association For General Merchandise, CIC*

*Note:* Retail sales value above is inclusive of tax.

*Key success factors of China's department store industry*

The key success factors of China's department store industry include product differentiation, an outstanding management team, good brand image and favourable store location. Currently, due to non-differentiating products in department stores, the brand loyalty of department store is relatively low. One of the key success factors of leading department stores in the market is to differentiate themselves. By providing exclusive and differentiated products, leading department stores are able to attract more customers and thus boost the sales.

The success of a department store is highly dependent on the management team. An outstanding management team is capable of formulating a successful marketing strategy, improving daily operation efficiency, offering better customer services and even obtaining advantages when negotiating with retailers. A good brand image is essential to department stores in two aspects. Firstly, a good brand image of a department store is attractive to retailers, ultimately giving more bargaining power to the department stores. Secondly, a good brand image is also attractive to customers, and thus improves the customer footfall of the department stores as well.

A favourable store location acts as another key success factor for the department store market. By opening the stores in downtown with convenient access to public transportation, the department store is able to access more customers and utilise the population density of the city centre, ultimately generating more sales.

**THE SUPERMARKET INDUSTRY IN THE PRC**

The retail sales value of China's supermarket industry increased from approximately RMB1,336.2 billion in 2010 to approximately RMB2,040.2 billion in 2015, representing a CAGR of approximately 8.8% for the period. Along with the continuous increase of urbanisation rate and purchasing power, the supermarket industry has grown accordingly. Due to the emerging e-commerce channel and rapid growth of convenient stores, the growth rate of supermarket retail sales value has slowed down in the past few years.

Fresh food supermarket and premium supermarket have become the new drivers for the industry because of the increasingly sophisticated and affluent consumption demand. Thus, retail sales value of China's supermarket industry is expected to reach approximately RMB2,800.2 billion in 2020 with a CAGR of approximately 6.5% from 2015 to 2020.

**Market drivers of China's supermarket and hypermarket industry**

The market drivers of China's supermarket and hypermarket industry include the increasing urbanisation rate, greater consumer purchasing power, and a shift from traditional wet market to supermarket and hypermarket. As a result of the fast urbanisation progress, it is expected that more consumers will come to the urban areas and increase their spending on daily consumer products. As a result, the market size of supermarket and hypermarket is forecasted to grow accordingly.

Driven by the increasing purchasing power of residents in China, supermarket and hypermarket industry has undergone tremendous development in recent years. With the steady increase of per capita disposable income in China, more consumption is expected in the supermarket and hypermarket industry, especially in larger developing cities. More and more people prefer to shop in supermarkets and hypermarkets than traditional wet markets because of the one-stop shopping convenience, more competitive price, broader product range, more reliable product quality and better shopping environment. With the increasing awareness on food safety, many wet markets which lack of food safety monitoring system are likely to be replaced by supermarket and hypermarket.

**Market trends of China's supermarket and hypermarket industry**

The market trends of China's supermarket and hypermarket industry include active merger and acquisitions, expansions to less economically-developed cities, more premium supermarket and fresh food supermarket and implementation of digital technology. The number of new opening stores has decreased in recent years. Large chain companies shifted their strategies from aggressive new outlet openings to implement merger and acquisitions activities with small-scaled supermarket stores. By acquiring small local supermarkets, companies can overcome the regional constraints and expand their businesses into different areas. Supermarket and hypermarket industry in most of the less economically-developed cities is far from saturated.

The competition there is also less fierce. Rent, logistics and labour cost are much lower than affluent cities. Many chain supermarkets are expected to extend their businesses to less economically-developed cities with great growth potential in the next few years. Due to the continuous increase of per capita disposable income and growing spending power, customers now have an increasingly diversified and affluent consumption demand. The healthiness and safety of food has become a priority when purchasing products. Premium imported products as well as premium fresh food becomes a shopping trend in the supermarket industry.

Key technologies (such as cloud computing) and the Internet of Things give the supermarket and hypermarket industry the necessary resources for better inventory management, quality control and supply chain optimisation. Those technologies can lower operating cost and offer effective strategies for sales and marketing.

**Market challenges of China's supermarket and hypermarket industry**

The market challenges of China's supermarket and hypermarket industry include the slowdown of China's economy, growing competition from online retailers, growing competition from convenient stores and increasing operating costs.

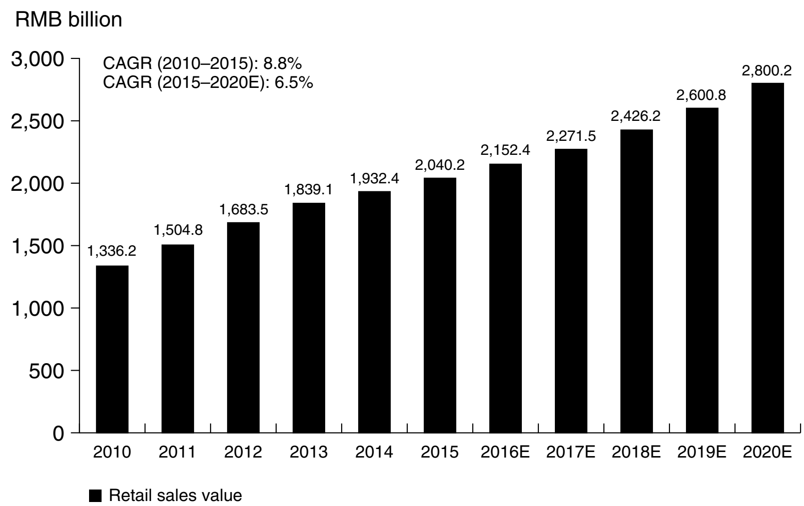
China's macro economy experienced a rapid growth during last decades since the reform and open-up policy presented by Chinese government. The nominal GDP ranked second place in the world. However, China's economy has entered into a transition period. It is expected that the economic growth will slow down for the next few years. As a result, the forecast for the growth rate of supermarkets and hypermarkets will slow down accordingly.

The emerging e-commerce channel has made a significant impact on supermarkets and hypermarkets as well as retailing industry in general. Due to the competitive lower price, convenient payment system and gradually improved distribution service, e-commerce is taking more market share from retailing industry.

Opening a new standard supermarket and hypermarket requires larger space and convenient location. It becomes very costly to open a standard supermarket and hypermarket now in major metropolitan areas because of the rising costs. On the other hand, the number of convenient stores surged in recent years. Convenient stores are getting more popular because of its convenient location. In addition, there has been a significant rise in costs for rents, logistics and labour. Many chain supermarkets and hypermarkets shut down some of their underperforming stores to get through pressure of rising cost.

**Future growth**

In light of the market drivers and challenges, there is still future growth as the retail sales value of China's supermarket industry is expected to reach approximately RMB2,800.2 billion in 2020, with a CAGR of approximately 6.5% from 2015 to 2020. The following chart sets forth China's retail sales value and forecast of supermarket industry for the periods indicated:




*Source:* *CIC*

*Note:* Retail sales value above is inclusive of tax.

**Key success factors of China's supermarket and hypermarket industry**

The key success factors of China's supermarket and hypermarket industry include pricing strategy, range of products, distribution network and inventory control and customer shopping experience.

Pricing is a vital factor that affects consumer behaviours. With fierce homogeneous competition in the supermarket and hypermarket industry, many supermarkets and hypermarkets now compete by offering competitive prices. Hence, effective promotion and discount strategies based on different products, selling seasons and store locations become very important. It is important for supermarkets and hypermarkets to have a wide range of products and keep all the products in stock, otherwise consumers are likely to move to other competitors and lose customer loyalty. Stores need to prioritise and adjust the product mix in line with the prevailing market demands. The SKU of a typical hypermarket is above 20,000 while the SKU of a community supermarket is in the range of 3,000 to 5,000.

Distribution network and inventory management are the key elements of cost saving and product pricing. Different companies have various logistic strategies to lower cost. In general, it is vitally important to understand and monitor the end-to-end information flow along the supply chain. Apart from competitive prices, stores need to adopt a customer-oriented approach to retain more customers. For example, they are expected to have clean and organised store environment, and provide value-added services.

## REGIONAL RETAIL INDUSTRY

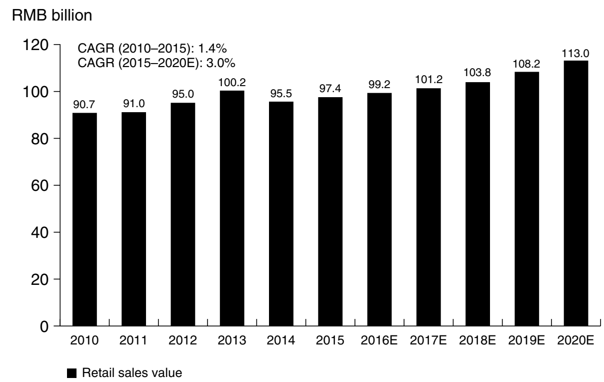
### Overview

*Shanghai*

The retail sales value of Shanghai's department store industry increased from approximately RMB90.7 billion in 2010 to approximately RMB97.4 billion in 2015, representing a CAGR of approximately 1.4%. The retail sales value reached its peak in 2013 at approximately RMB100.2 billion. Shanghai, known as the international trade centre, international finance centre, international shipping centre and international economic centre, has the highest GDP among all cities in China in 2015. In accordance with the economic development, per capita disposable income of Shanghai is also the highest among all cities in China. Thus, Shanghai obtained a large share of China's department store market, which was about 8.2% in 2015. With PRC government's increasing emphasis on the importance and future development of retail sales market, Shanghai is expected to continue enjoying its leading economic development position in China.

The retail sales value of Shanghai's department store industry has reached approximately RMB97.4 billion in 2015, with an annual growth rate of approximately 2.0% comparing to 2014. The retail sales value of Shanghai's department store industry is expected to reach approximately RMB113.0 billion in 2020, with a CAGR of approximately 3.0% from 2015 to 2020. The expected continuous future growth of Shanghai's department store industry is based on following market drivers: Firstly, as mentioned above, Shanghai has the highest GDP and per capita disposable income among all cities in PRC in 2015. The continuous growth of Shanghai's economy and purchasing power is expected to stimulate the department store industry to keep growing. Secondly, the upgrade of consumption structure towards high quality premium goods and such goods are mostly purchased through offline channels such as department stores. Thirdly, the leisure experience provided by department stores is also expected to stimulate the further growth of the industry as such experience, which cannot be provided online, can fulfill the social needs of consumers. Furthermore, department stores are able to offer different types of promotional events to attract consumers rather than just price discounting as more commonly seen in the online platform. Thus, it is expected that Shanghai's department store industry would sustain growing in the forecast period.

The following chart sets forth Shanghai's retail sales value and forecast of department store industry for the periods indicated:




*Source: Shanghai Merchandise Commercial Profession Trade Association, CIC*

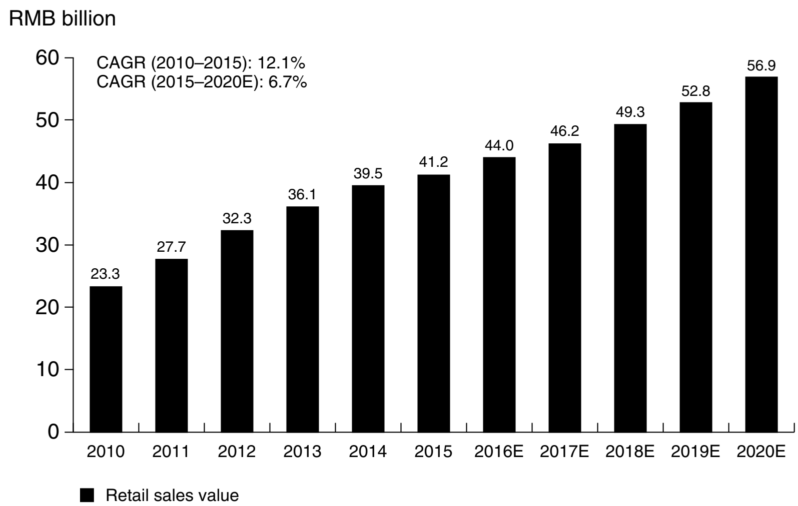
*Note:* Retail sales value above is inclusive of tax.

Shanghai has the highest nominal GDP in China in 2015. The department store market is relatively mature in Shanghai. The market is highly competitive with a number of domestic and foreign companies. The top three department stores by retail sales value in 2015 were Shanghai No.1 Yohan, Shanghai New World Department Store and Shanghai Jiuguang, with market share of approximately 4.7%, 3.6% and 2.4%, respectively.

*Suzhou*

The retail sales value of Suzhou's department store industry increased from approximately RMB23.3 billion in 2010 to approximately RMB41.2 billion in 2015, representing a CAGR of approximately 12.1%. Suzhou is one of the major cities in China with a GDP ranking of the 7th place in 2015. Suzhou is famous for its economic development in the Yangtze River Delta region. With large multinational companies and more than 100 of Fortune 500 companies opening up branches or regional headquarters in Suzhou Industrial Park, Suzhou has a higher income level comparing to national average which provides a favourable growth potential of department store market. Furthermore, Suzhou possesses a rapid growth of economy with double digits annual growth rate of per capita disposable income in the past few years.

The retail sales value of Suzhou's department store industry is expected to reach approximately RMB56.9 billion in 2020, growing at a CAGR of approximately 6.7% from 2015 to 2020. The following chart sets forth Suzhou's retail sales value and forecast of department store industry for the periods indicated:




*Source:* *CIC*

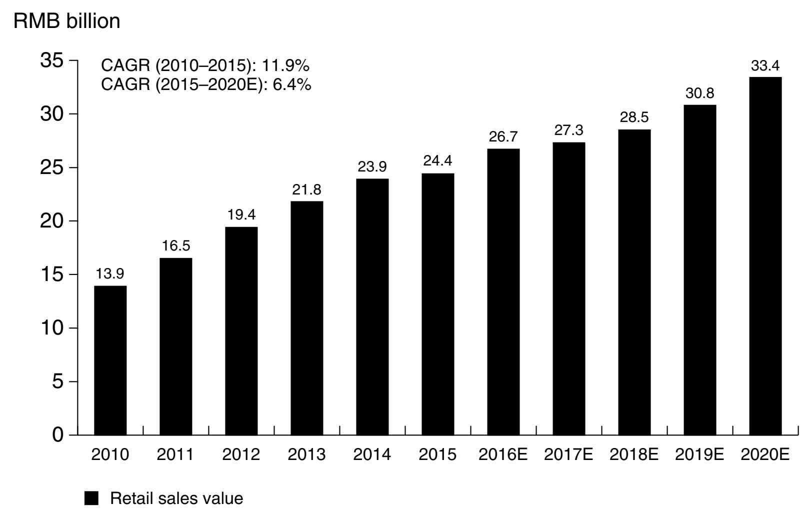
*Note:* Retail sales value above is inclusive of tax.

The top five department stores by retail sales value in 2015 were Suzhou Renmin Department Store, Suzhou Shilu International Department Store, Suzhou Tower Department Store, Suzhou Jiuguang and Suzhou No. 1 Department Store, with market share of approximately 6.0%, 3.0%, 2.9%, 2.7% and 0.7%, respectively.

*Dalian*

The retail sales value of Dalian's department store industry increased from approximately RMB13.9 billion in 2010 to approximately RMB24.4 billion in 2015 with a CAGR of approximately 11.9%. Dalian used to be a major city of industrial base of Northeast China. However, as it becomes one of top tourism destinations in China, Dalian is putting efforts in shifting its economy and positioning from industry-driven to consumption-driven. As a result, Dalian's retail sales value of department store industry enjoyed a fast growth rate during the past few years and is expected to sustain the growth in the future.

The retail sales value of Dalian's department store industry is expected to further reach approximately RMB33.4 billion in 2020, representing a CAGR of approximately 6.4% from 2015 to 2020. The following chart sets forth Dalian's retail sales value and forecast of the department store industry for the periods indicated:



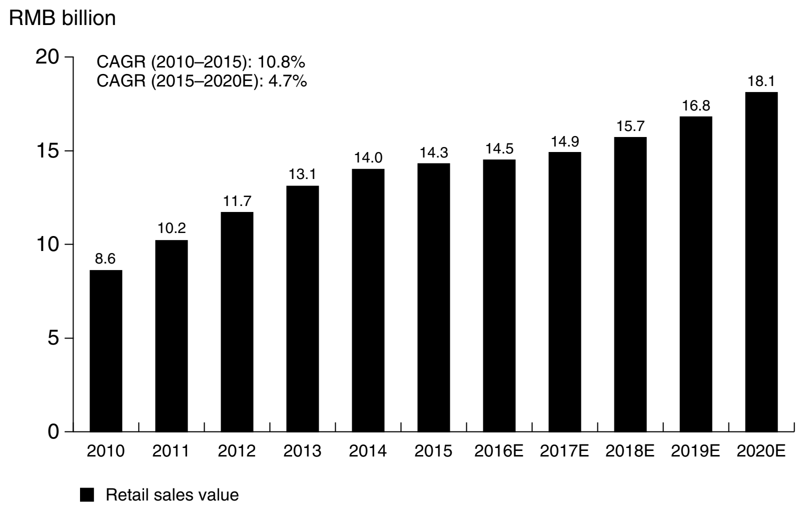

*Source:* *CIC*

*Note:* Retail sales value above is inclusive of tax.

Dalian is one of the developed cities in Northeast China. The department store market in Dalian is dominated by Dalian Dashang Group Co., Ltd. with a market share of more than 80% in 2015. Dashang Group operates its department stores under four different brands which are MyKal, New Mart, Kingson and Dashang.

*Shijiazhuang — department store industry*

The retail sales value of Shijiazhuang's department store industry increased from approximately RMB8.6 billion in 2010 to approximately RMB14.3 billion in 2015 with a CAGR of approximately 10.8%. Shijiazhuang is the provincial capital of Hebei Province and also one of the important cities of Beijing-Tianjin-Hebei region. Shijiazhuang's economy experienced a steady growth over the past few years. As a result, the per capita disposable income of Shijiazhuang also increased accordingly. The increasing purchasing power provides the base for the further growth of Shijiazhuang's department store industry. The retail sales value of Shijiazhuang's department store industry is expected to further reach approximately RMB18.1 billion in 2020, representing a CAGR of approximately 4.7% from 2015 to 2020. The following chart sets forth Shijiazhuang's retail sales value and forecast of the department store industry for the periods indicated:




*Source:* *CIC*

*Note:* Retail sales value above is inclusive of tax.

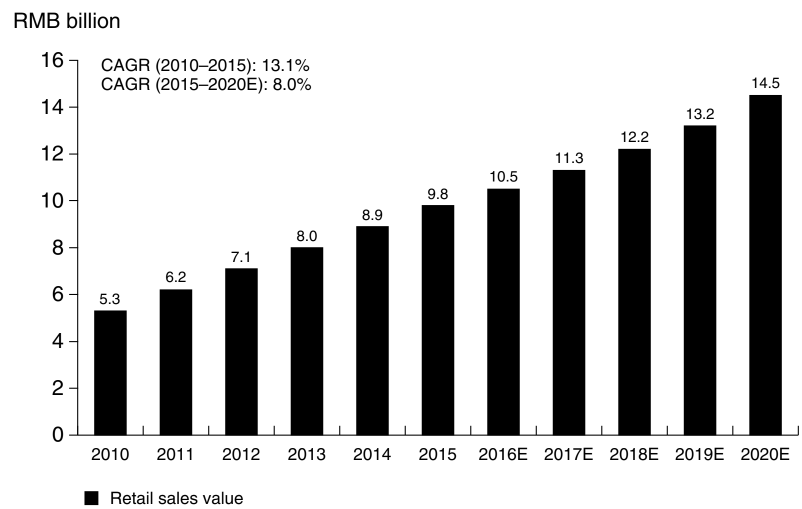
The retail sales value of Beiren Group's department stores in Shijiazhuang reached approximately RMB6.8 billion, with a market share of approximately 47.2% in 2015. Northland Mall is the largest department store in Shijiazhuang under Beiren Group. Other Beiren Group department store brands include Beiguo Dongshang Mall, Yiyou Department Stores and Yidong Department Stores. Other participants in Shijiazhuang's department store industry include Wanda Department Stores, White International Mall, and Tianyuan Fashion Mall.

*Shijiazhuang — supermarket and hypermarket industry*

The retail sales value of Shijiazhuang's supermarket and hypermarket industry increased from approximately RMB5.3 billion in 2010 to approximately RMB9.8 billion in 2015, with a CAGR of approximately 13.1%.

Along with the continual increase of per capita disposable income and growing purchasing power in Shijiazhuang, the supermarket and hypermarket industry in Shijiazhuang has grown steadily. People in Shijiazhuang have developed a stable consumer culture and shopping habit for the supermarket and hypermarket industry throughout the past 20 years. The emerging e-commerce channel and rapid growth of convenient stores have less impact on Shijiazhuang's supermarket and hypermarket industry. The growing purchasing power and rapid economic development in Shijiazhuang are expected to further drive Shijiazhuang's supermarket and hypermarket industry to keep growing.

Thus, retail sales value of Shijiazhuang's supermarket and hypermarket industry is expected to reach approximately RMB14.5 billion in 2020 with a CAGR of approximately 8.0% from 2015 to 2020. The following chart sets forth Shijiazhuang's retail sales value and forecast of the supermarket and hypermarket industry for the periods indicated:




*Source:* *CIC*

*Note:* Retail sales value above is inclusive of tax.

Beiguo Supermarket was the leading participant in the industry with retail sales value of approximately RMB4.8 billion in 2015. Following Beiguo Supermarket, each of Yonghui Superstores and Baolongcang had retail sales value of approximately RMB1.7 billion and approximately RMB0.5 billion, respectively, in 2015.

**ABOUT CIC**

In connection with the Introduction, we have commissioned CIC, an independent third party, to conduct an analysis of, and to report on China's department store, supermarket and hypermarket market industry. The report we commissioned, or the CIC Report, has been prepared by CIC independent of our influence. The fee payable to CIC for preparing the CIC Report is RMB400,000, which we consider at market rates. CIC services include industry consulting, commercial due diligence, strategic consulting, etc.. Its consulting team has been tracking the latest market trends in industrial, energy, chemical, healthcare, consumer goods, transportation, agriculture, internet, finance, etc., and has relevant market intelligence in the above industries. CIC conducts both primary and secondary research through various resources. Primary research involved interviewing key industry experts and leading industry participants. Secondary research involved analysing data from various publicly available data sources, such as NBSC, industry associations, etc..

The CIC Report that we commissioned includes information on China's department store, supermarket and hypermarket market industry. All statistics are reliable and are based on information available as of the date of the CIC Report. Other sources of information, including government, industry associations or market participants, may have provided some of the information on which the analysis or data is based.

In compiling and preparing the CIC Report, CIC has adopted the following assumptions: (i) China's economy and industry development is likely to maintain a steady growth in the next decade; and (ii) related industry key drivers are likely to drive the growth of China's department store industry in the forecast period, such as the increasing population and per capita disposable income, the upgrade of consumption structure towards high quality premium goods, leisure experience provided by department stores, the development of tier 2 and tier 3 cities; (iii) related industry key drivers are likely to drive the growth of China's supermarket and hypermarket industry in the forecast period, such as the increasing urbanisation rate, the greater consumer purchasing power, shift from traditional wet market to supermarket and hypermarket; and (iv) there is no any extreme force majeure or industry regulation in which the market may be affected dramatically or fundamentally.

Except as otherwise noted, all the data and forecast in this section are derived from the CIC Report.

## PRC REGULATORY COMPLIANCE

This section sets forth a summary of the most significant aspect of the PRC laws and regulations relating to our business operations in the PRC.

## I. REGULATORY OVERVIEW OF THE PRC RETAIL SECTOR

Since the 1990s, China has been gradually relaxing its restrictions on foreign investment in the commercial and logistics domain.

In July 1992, the State Council issued the Response to the Application of Foreign Capital to the Commercial Retail Industry (《關於商業零售領域利用外資問題的批復》) (the "**Application of Foreign Capital Response**"), and agreed to carry out trial operations of one to two Sino-foreign equity joint venture or Sino-foreign cooperative joint venture commercial retail enterprises in each of Beijing, Shanghai, Tianjin, Guangzhou, Dalian, Qingdao and five special economic zones. Under the Application of Foreign Capital Response, foreign investment commercial enterprise projects became subject to the review and approval of the State Council through the reports of local governments. The operating scope of foreign investment commercial enterprises included department store retail business and import and export business operations.

In June 1998, the State Internal Trade Bureau promulgated the Opinion Regarding Standardisation of Retailing Business Classification (Provisional) (《零售業態分類規範意見(試行)》) which defined the various types of retail businesses, such as department stores, supermarkets and hypermarkets.

In June 1999, with the approval of the State Council, the State Economic and Trade Commission (國家經濟貿易委員會) and the Ministry of Foreign Trade & Economic Cooperation (MOFTEC, (對外貿易經濟合作部), and later restructured into the Ministry of Commerce) issued the Experimental Measures for Commercial Enterprises with Foreign Investment (《外商投資商業企業試點辦法》) (the Experimental Commercial Enterprises Measures) and expanded the permitted geographic coverage of sino-foreign equity and cooperative joint venture commercial retail enterprises to capital cities of the provinces, capital of autonomous regions and the municipalities under the Chinese government, special economic zones and cities directly under independent development plans. Wholly foreign-invested enterprises were not allowed to be established in the retail industry at that time. Moreover, the establishment of sino-foreign equity or cooperative joint ventures had to comply with commercial development planning rules in the relevant area. To gain access to the Chinese market, non-Chinese retailers had to apply for permission from the Chinese government in accordance with the Experimental Commercial Enterprises Measures, which required high market entry thresholds. The Experimental Commercial Enterprises Measures were abolished when the Measures of Administration of Foreign Investment in Commercial Sector (《外商投資商業領域管理辦法》) (the "**Commercial Enterprises Measures**") took effect from 1 June 2004.

On 16 April 2004, the Ministry of Commerce issued the Commercial Enterprises Measures, which were implemented on 1 June 2004 and revised on 28 October 2015. There were a number of major changes in the Commercial Enterprise Measures, including permitting foreign investors to engage in the operation of distribution services on a wholly-owned basis from 11 December 2004. The Commercial Enterprises Measures were also expected to gradually enlarge the geographical coverage of foreign-invested commercial enterprises and lower the market entry threshold. After the implementation of the Commercial Enterprises Measures, foreign investors and operators were permitted to engage in the retail business in China on a wholly-owned basis and expand into geographical areas which were not opened to foreign investors for retail operations previously.

**Retail industry foreign investment laws and regulations in China**

In terms of requirements for foreign-invested commercial enterprises to set up stores, it is stipulated in the Commercial Enterprises Measures that foreign investors can apply to set up both commercial enterprises and stores at the same time in accordance with simplified procedures and clear guidelines.

According to the Commercial Enterprises Measures, a foreign invested commercial enterprise must meet the following conditions:

— its minimum registered capital must comply with the requirements of the Company Law of the PRC;

— it must comply with the normal total investment and registered capital requirements for foreign-invested enterprises; and

— in general, its term of operation may not exceed 30 years, or 40 years in the mid-western region of the PRC.

Moreover, the foreign-invested commercial enterprise must conform to the applicable urban development plan and the commercial development plan of the city where it is to be located in order to open a retail store.

The procedures for establishing a foreign-invested commercial enterprise involve the submission of an application which shall include a project description, feasibility study and other relevant documents as required to the relevant provincial level commerce department or the Ministry of Commerce for approval. According to the Notice of the Ministry of Commerce on Entrusting Local Department to Check Foreign-invested Commercial Enterprises (《商務部關於委託地方部門審核外商投資商業企業的通知》) issued by the Ministry of Commerce on 9 December 2005, the Ministry of Commerce authorised the provincial commerce departments and the committees of national economic and technology development zones to handle some of the foreign-invested commercial enterprise approvals. According to the Notice of the Ministry of Commerce on Transferring Approvals Rights of Foreign-invested Commercial Enterprises (《商務部關於下放外商投資商業企業審批事項的通知》) issued by the Ministry of Commerce on 12 September 2008, the provincial commerce department shall be the approval authority for the establishment and modification of foreign-invested commercial enterprises, except for those concerning the sale by television, telephone, mail order, internet, or vending machine, those concerning the wholesale of audio-visual products and those concerning the sale of books, newspapers and magazines. In addition, pursuant to the Notice of the Ministry of Commerce on the Verification and Administration of Part of Foreign-invested Service Enterprise by Provincial Commerce Department and National Economic & Technology

Development Zone (《商務部關於省級商務主管部門和國家級經濟技術開發區審核管理部分服務業外商投資企業相關事項的通知》) issued by the Ministry of Commerce on 4 May 2009, the scope of approval of the provincial commerce department had been expanded to cover the approval of foreign-invested enterprises within six industries, including foreign-invested enterprises engaged in the distribution of books, newspapers and magazines and sino-foreign cooperative joint venture enterprises engaged in the wholesale of audio-visual products, if such enterprise is an enterprise falling under the encouraged class or permitted class in the Catalogue of Foreign-invested Industries Guidance (《外商投資產業指導目錄》) ("**FIE Industry Catalogue**") with a total investment capital below US$100 million, or if such enterprise is an enterprise falling under the restricted class in the FIE Industry Catalogue, with a total investment capital below US$50 million. On 10 June 2010, the Ministry of Commerce further issued the Notice on relevant Matters regarding Transferring Approval Rights of Foreign Investment (《商務部關於下放外商投資審批許可權有關問題的通知》) ("**Circular 209**"). According to the Circular 209, the scope of approval rights of the provincial commerce department had been further expanded to cover the approval of foreign-invested enterprises falling under the encouraged class or permitted class in the FIE Industry Catalogue with a total investment capital below US$300 million, or falling under the restricted class in the FIE Industry Catalogue with a total investment capital below US$50 million.

Under the Commercial Enterprises Measures, the percentage of foreign investment in retailers in China with more than 30 stores which are engaged in the sale of certain specific goods, including books, newspapers, magazines, automobiles (such restriction for automobiles was cancelled on 11 December 2006), pharmaceutical products, pesticides, fertilisers, refined oil products, grains, vegetable oil, sugar and cotton, and with such goods being of different brands and obtained from different suppliers, should not exceed 49%. This percentage was increased to 100% from 5 February 2009 for foreign investment by Hong Kong and Macau service providers pursuant to the Supplementary Provisions (IV) on the Commercial Enterprises Measures (《外商投資商業領域管理管理辦法補充規定(四)》) promulgated by the Ministry of Commerce on 5 February 2009.

**Consumer Protection Law**

The principal legal provisions for the protection of consumer interests are set out in the PRC Law on the Protection of Consumer Rights (《中華人民共和國消費者權益保護法》) ("**Consumer Protection Law**"), which was promulgated on 31 October 1993 and implemented with effect from 1 January 1994 and revised on 25 October 2013 with effect from 15 March 2014. The Consumer Protection Law sets out standards of behaviour which a business operator must observe in its dealings with consumers, including the following:

— consumer goods and services must comply with the Product Quality Law and other relevant laws and regulations, including requirements regarding personal safety and protection of property;

— providing consumers with true information and advertising concerning goods and services provided by them, as well as true and clear answers to questions raised by consumers concerning the quality and use of goods or services provided by them;

— issuing purchase or services vouchers to consumers in accordance with relevant national regulations or business practices or upon the request by a consumer;

— ensuring the quality, functionality, application and duration of use of the goods or services provided by them under normal use and ensuring that the actual quality of the goods or services are consistent with that displayed in advertising materials, product descriptions or samples;

— properly performing its responsibilities for guaranteed repair, replacement and return or other liability in accordance with national regulations or any agreement with the consumer; and

— not setting unreasonable or unfair terms for consumers or excluding itself from civil liability for undermining the legal rights and interests of consumers by means of standard contracts, circulars, announcements, shop notices or any other similar means.

Violations of the Consumer Protection Law may result in the imposition of fines. In addition, the business operator may be ordered to suspend its operations and its business license may be revoked. Criminal liability may be incurred in serious cases.

According to the Consumer Protection Law, a consumer whose legal rights and interests are prejudiced during the purchase or use of goods may demand compensation from the seller. Where the responsibility lies with the manufacturer or another supplier that provides the goods to the seller, the seller shall, after setting compensation, have the right to recover such compensation from that manufacturer or supplier. Consumer or other injured parties who suffer injury or property losses due to product defects in commodities may demand compensation from the manufacturer as well as the seller. Where the responsibility lies with the manufacturer, the seller shall, after settling compensation, have the right to recover such compensation from the manufacturer, and vice versa.

**Product Quality Law**

The principal legal provisions governing product liability are set out in the PRC Law on Product Quality (《中華人民共和國產品質量法》) ("**Product Quality Law**"), which was promulgated on 22 February 1993, implemented with effect from 1 September 1993, and revised according to the Decision of the SCNPC on Amending the Product Quality Law of the People's Republic of China (關於修改《中華人民共和國產品質量法》的決定) as adopted at the 16th Session of the Standing Committee of the 9th National People's Congress on 8 July 2000. The Product Quality Law requires that a business operator adhere to the following obligations:

— a check-for-acceptance system for stock replenishment shall be adopted to examine the quality certificate and other labels of such stock;

— measures shall be adopted to keep products for sale in good quality;

— the prohibition of sales of defective or deteriorated products;

— products sold must have labels that comply with relevant provisions;

— the prohibition on forgoing the place of origin of a product, or falsely using the name of and address of another producer;

— the prohibition on forgoing a producer's authentication marks or falsely using another producer's authentication marks, marks of famous/premium brand names or other product quality marks; and

— the prohibition on mixing impurities or imitations into products, substituting a fake product for a genuine one, substituting a defective product for a high-quality one, or passing-off a substandard product as a qualified one.

Violations of the Product Quality Law may result in the imposition of fines. In addition, a company in violation of the Product Quality Law may be ordered to suspend its operations and its business license may be revoked. Criminal liability may be incurred in serious cases. According to the Product Quality Law, a consumer or other victim who suffers injury or property losses due to product defects may demand compensation from the manufacturer as well as from the seller. Where the responsibility lies with the manufacturer, the seller shall, after settling compensation with the consumer, have the right to recover such compensation from the manufacturer, and vice versa.

**Food Safety Law**

The Food Safety Law of the PRC (《中華人民共和國食品安全法》) ("**Food Safety Law**") was promulgated on 28 February 2009 by the SCNPC, implemented with effect from 1 June 2009 and revised on 24 April 2015 with effect from 1 October 2015. The Implementation Regulations of the Food Safety Law (《中華人民共和國食品安全法實施條例》) (Implementation Regulations) were subsequently promulgated on 20 July 2009, became effective from the date of promulgation and revised on 6 February 2016.

The Food Safety Law and the Implementation Regulations apply to the production and operation of food, food additives, food related products (such as food containers and packaging materials) and other relevant products. Under the Food Safety Law, a licensing system is adopted by the PRC government for the production and operation of food products, except that licensing is not required for the sale of edible agricultural products. Food producers and distributors and catering service providers shall, pursuant to law, apply for relevant license as applicable. Food production and operation enterprises shall establish and improve internal food-safety management systems, implement staff training focused on food-safety issues, strengthen food inspection, and conduct food production and operation activities according to law. Any violation of the Food Safety Law and its Implementation Regulations may result in legal liabilities, such as warnings, fines, damages, or even criminal liability for serious violations.

In addition, the Measures for Administration of Food Safety in Circulating Field (《流通領域食品安全管理辦法》) ("**Measures**"), which were promulgated by the Ministry of Commerce on 19 January 2007, and effective from 1 May 2007, are also one of the laws governing food circulation and food safety in wholesale and retail markets. The Measures set out the requirements of food circulation and food safety in wholesale and retail markets, including but not limited to the following: (i) the relevant operators shall obtain the relevant licenses required by relevant laws and regulations, such as business license; and (ii) the operation environment of food shall comply with the general standard required by food safety and sanitation laws and regulations.

**Approvals, licenses and permits for operating hypermarkets**

Apart from obtaining the necessary business licenses for operating hypermarkets, operating a hypermarket retail business in PRC requires certain other approvals, licenses and permits. In particular, fire safety inspection of the building where a hypermarket is to be operated is usually required, and approval from the relevant fire department has to be obtained before commencement of business.

The following PRC licenses and permits under PRC laws and regulations may be applicable to our Group depending on the merchandise offered in our hypermarkets:

— "Hygiene License for Public Place" (公共場所衛生許可證) for hypermarkets as public places;

— "Cigarette Monopoly Permit" (煙草專賣零售許可證) for sale of cigarettes;

— "Alcohol Circulation Registration" (酒類流通備案登記) for sale of alcohol;

— "Food Operation Permit" (食品經營許可證) for sale of food;

— "Publications Operation Permit" (出版物經營許可證) for sale of books, newspapers and audiovisual products; and

— "Medical Device Operation Filing Certificate" (醫療器械經營備案憑證) for sale of various types of medical apparatus.

As a foreign-invested commercial enterprise, we may not be able to obtain the Cigarette Monopoly Permit due to industry restrictions.

A hypermarket also needs to apply for such other business licenses at the request of the relevant governmental departments.

As of the Latest Practicable Date, all PRC subsidiaries of our Group have obtained the necessary license and permits for each of them to operate hypermarket business operations as applicable.

**Prepaid cards**

The issue and sale of token cards or prepaid cards for circulation in the market in place of RMB is regulated by the following PRC laws and regulations:

— The Law of the People's Bank of China of PRC (《中華人民共和國中國人民銀行法》) which came into effect on 18 March 1995 and was amended on 27 December 2003, with the amendment being effective on 1 February 2004;

— The Regulations of PRC on Administration of Renminbi (《中華人民共和國人民幣管理條例》) which came into effect on 1 May 2000 and revised on 29 July 2014;

— The Notice on Prohibiting the Distribution and Use of Various Types of Tokens issued the General Office of the State Council (《國務院辦公廳關於禁止發放使用各種代幣購物券的通知》) which came into effect on 1 May 1991;

— The Notice on Prohibiting the Printing, Offering, Purchasing and Using of Various Types of Tokens issued by the State Council (《國務院關於禁止印製、發售、購買和使用各種代幣購物券的通知》) which came into effect on 4 April 1993;

— The Notice on Strictly Controlling the Overly Rapid Growth of Consumption Expenditure and Strengthening the Cash Management issued by the State Council (《國務院關於嚴格控制消費基金過快增長和加強現金管理的通知》) which came into effect on 9 November 1994;

— The Emergency Notice on Further Strengthening the Cash Management and Controlling the Cash Issuance by the General Office of the State Council (《國務院辦公廳關於進一步加強現金管理控制現金投放的緊急通知》) which came into effect on 16 January 1995;

— The Emergency Notice on Resolutely Stopping the Tendency of Issuance and Use of Various Kinds of Token Cards of the Office of Correcting Industrial Improper Practice (《國務院糾正行業不正之風辦公室關於堅決剎住發放使用各種代幣購物券之風的緊急通知》) issued on 11 December 1998;

— The Emergency Notice on Prohibition of Issuing and Using Tokens (or Token Cards) (《關於嚴禁發放使用各種代幣券(卡)的緊急通知》) jointly promulgated by the State Economic and Trade Commission (國家經濟貿易委員會), the Office of

Correcting Industrial Improper Practice at the State Council (國務院糾正行業不正之風辦公室) and the People's Bank of China ("**PBOC**") (中國人民銀行) on 19 January 2001;

— The Administrative Measures for the Payment Services of Non-financial Institutions ("**Payment Services Measures**") (《非金融機構支付服務管理辦法》) issued on 14 June 2010 and came into effect on 1 September 2010. The Payment Services Measures provide that non-financial institutions may issue token cards or prepaid cards as an intermediary if they apply for and obtain the necessary licenses before 1 September 2011; and

— The Notice on Standardising the Administration for Commercial PrePaid Cards (關於規範商業預付卡管理的意見) jointly promulgated by PBOC, Ministry of Supervision of the People's Republic of China (中華人民共和國監察部), Ministry of Finance of the People's Republic of China (中華人民共和國財政部), MOFCOM (中華人民共和國商務部), SAT (中華人民共和國稅務總局), SAIC (中華人民共和國工商總局), National Bureau of Corruption Prevention of the People's Republic of China (國家預防腐敗局) on 23 May 2011.

Pursuant to the Law of the People's Bank of China of PRC, the PBOC may impose a maximum fine of RMB200,000 on any entity issuing such token cards or prepaid cards.

On 23 May 2011, the General Office of the State Council promulgated the Notice on Standardising the Administration for Commercial Prepaid Cards ("**Notice**") which is formulated by relevant authorities and which demonstrates by context that the competent authorities acknowledge the positive effect of prepaid card and do not prohibit a commercial enterprise to issue prepaid cards itself. This Notice also acknowledged that a commercial enterprise may issue single-functional prepaid cards for itself subject to certain requirements indicated in the Notice, including: (a) for those who purchase registered commercial prepaid cards or purchase non-registered commercial prepaid cards exceeding RMB10,000 for one time, the issuer shall register their names; (b) in case an entity purchases the prepaid card exceeding the amount of RMB5,000 for one time, or an individual purchases the prepaid card exceeding the amount of RMB50,000 at one time, they shall remit through wire transfer other than cash; if wire transfer is carried out, the issuer shall register the name, number and amount of receiving and remitting account for every purchase of prepaid cards; (c) par value of non-registered commercial prepaid card shall not exceed RMB1,000, while par value of registered commercial prepaid cards shall not exceed RMB5,000; (d) the issuer shall provide invoice for sales of prepaid card according to relevant laws and regulations; and (e) there is no restriction on the term of validity of registered commercial prepaid card, while the term of validity of non-registered commercial prepaid cards shall be no less than three years. The Notice also mentioned that Ministry of Commerce may further promulgate regulations on single-functional prepaid cards to regulate the activities on single-functional prepaid cards.

As of the Latest Practicable Date, all PRC subsidiaries of our Group have been in compliance with the above requirement.

### New urban taxation

On 18 October 2010, the State Council issued Notice 35, which unifies the Urban Maintenance and Construction Tax (the "**UMCT**") and Education Levy on domestic enterprises and foreign investment enterprises in the PRC, effective 1 December 2010. The UMCT and Education Levy are calculated based on the total amount of business tax, value added tax and consumption tax paid by each taxpayer. The UMCT rates for enterprises in cities, counties and other areas are seven percent, five percent and one percent, respectively. The Education Levy rate is three percent.

## II. REGULATORY OVERVIEW OF FOREIGN INVESTMENT IN PRC FOOD SERVICES INDUSTRY

According to the Catalog for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》), as amended, consumer food and beverage services and general food production and sales are classified as industries where foreign investments are allowed by the state ever since 1995.

### Laws and Regulations on Licensing Requirement for Consumer Food Services

On 4 March 2010, the Ministry of Health promulgated the Administrative Measures on Food and Beverage Service Licensing (《餐飲服務許可管理辦法》) and Administrative Measures on Food Safety Supervision in Food and Beverage Services (《餐飲服務食品安全監督管理辦法》). Both measures came into force on 1 May 2010. Pursuant to the Administrative Measures on Food and Beverage Service Licensing, the local food and drug administrations at various levels are responsible for the administration of food and beverage service licensing. Providers of consumer food services are required to obtain a food service license and are responsible for safety in food and beverage services in accordance with the law. A service provider, providing food and beverage services at different locations or venues must obtain separate food and beverage service licenses for each venue. In the event of any change in the operation locations, a new application for food service license is required. The food service license is valid for a period of three years. For those temporarily providing consumer food services, an interim food service license valid for a period not exceeding six months must be obtained. Where renewal is required, the consumer food services providers are required to submit a renewal application in writing to the original issuing department at least 30 days before the expiry date of the valid period of the food and beverage service license. Overdue renewal application may follow the same procedure as new application for food service license. The original issuing department, after accepting the renewal application for the food service license, must focus on whether there has been any change to the formerly licensed operation venue, any change in the layout of flow processes, and any change to the hygiene facilities, as well as whether the applicant has satisfied the basic conditions required for the grant of a license, and a new food service license will be issued upon successful renewal. Any transfer, alteration, lending, sale or leasing of food service licenses by consumer food service provider is strictly prohibited. Consumer food services providers shall operate within the scope of their licenses in accordance with the law and the scope specified in their food service licenses. The food service license must be hung or displayed at a conspicuous position in the venue for dining. If the consumer food service providers had already obtained a food hygiene license before the implementation date of the Administrative Measures on Food and Beverage Service Licensing, the pre-existing food hygiene license will remain effective during its valid period. The consumer food service providers holding a food hygiene license shall apply to the appropriate local food and drug supervision and administration authorities in the administrative regions where they operate, for a food service license before the food hygiene license's expiry date.

**Regulations on Licensing Requirement for the Food Production and Processing**

On 1 September 2005, the Implementation Rules for the Supervision and Administration on Quality and Safety of Food Production and Processing Enterprises (Trial) (《食品生產加工企業質量安全監督管理實施細則(試行)》) came into force. Those who engage in food production and processing operations for purpose of sale within the territory of the PRC must abide by the rules. Pursuant to such rules, the State has adopted a market access system for food quality and safety. Enterprises engaging in food production and processing must possess the requisite production conditions that guarantee food quality and safety, and must obtain the Production License for National Industrial Products (全國工業產品生產許可證) according to required procedures, and the food produced and processed must be inspected, pass the test and imprinted (or adhered) with the market access logo for food quality and safety before leaving the factory for sale. Food subject to production license administration implemented by the State may not be produced by enterprises that have not obtained the Production License for National Industrial Products. Food is prohibited from leaving the factory for sale without being imprinted (or adhered) with the market access logo for food quality and safety. According to the product catalog issued by the General Administration of Quality Supervision, Inspection and Quarantine for the implementation of the production license administration system, those whose business falls within the product catalogue shall apply for the Production License for National Industrial Products.

**Regulations on the Sanitation of the Public Assembly Venue**

The Regulation for the Administration of Sanitation of the Public Assembly Venue (《公共場所衛生管理條例》) effective on 1 April 1987 (which was revised on 6 February 2016), and the Implementation Rules for the Regulation for the Administration of Sanitation of the Public Assembly Venue (《公共場所衛生管理條例實施細則》) effective on 1 May 2011 (which was revised on 19 January 2016) were promulgated by the State Council and the Ministry of Health, respectively. The said regulations were adopted for the purpose of creating favorable and sanitary conditions for the public assembly venues, preventing disease transmission and safeguarding people's health. No business operator at public places may engage in business operations until it obtains the sanitation licenses with the health and family planning administrative departments of the people's governments after obtaining its business license.

### Regulations on Liquor Circulation

In accordance with the Measures for the Administration of Liquor Circulation (《酒類流通管理辦法》) effective on 1 January 2006, which was issued by the Ministry of Commerce, a system of archival filing of operators as well as a traceability system shall be established for liquor circulation. Any entity or individual engaged in the wholesale or retail of liquor (herein after referred to in general as "liquor operator") shall, within 60 days of acquiring a business license, make the archival filing and registration formalities in the competent department of commerce at the same level as the administrative department for industry and commerce where the registration is handled according to the principle of territorial administration. The liquor operator shall, when purchasing any liquor, claim the duplicates of the business license, sanitation license, production license (limited to producers), registration form, power of attorney of liquor distribution (limited to producers) of a supplier that supplies goods for the first time. The liquor operator shall establish an account for purchase and sales in the liquor business operation which he or she shall keep for 3 years. The competent departments of commerce may impose a fine up to RMB5,000 on any violation of the aforementioned rules.

### Regulations on Fire Prevention

The Fire Prevention Law of the PRC (《中華人民共和國消防法》) (the "**Fire Prevention Law**") was adopted on 29 April 1998 and amended on 28 October 2008. According to the Fire Prevention Law and other relevant laws and regulations of the PRC, the Ministry of Public Security and its local counterparts at or above county level shall monitor and administer the fire prevention affairs. The fire prevention units of such public security departments are responsible for implementation. The Fire Prevention Law provides that the fire prevention design or construction of a construction project must conform to the national fire prevention technical standards. For a construction project that needs a fire prevention design under the national fire protection technical standards for project construction, the construction entity must submit the fire prevention design documents to the fire prevention department of the public security authority for approval or filing purposes (as the case may be). No construction permit shall be given for the construction projects for which the fire prevention design has not been approved or is considered unqualified after the review, nor shall such construction entity commence their construction. Upon completion of a construction project to which a fire prevention design has been applied, according to the requirements of the Fire Prevention Law, such project must go through an acceptance check on fire prevention by, or filed with, the relevant fire prevention departments of public security authorities. No construction may be put into use before it is accepted by the relevant fire prevention units of public security authorities. For each public assembly venue, such as karaoke clubs, dancing halls, cinemas, hotels, restaurants, shopping malls, trade markets and etc., the construction entity or entity using such venue shall, prior to use and operation of any business thereof, apply for a safety check on fire prevention with the relevant fire prevention department under the public security authority at or above the county level where the venue is located, and such place cannot be put into use and operation if it fails to pass the safety check on fire prevention or fails to conform to the safety requirements for fire prevention after such check.

Please also refer to the paragraphs headed "Food safety law", "Consumer protection law", and "Product quality law" in this section which also apply to the food service industry in the PRC.

## III. REGULATORY OVERVIEW OF THE PRC PROPERTY INDUSTRY

Set out below is an overview of the key regulations relating to the property industry in the PRC, many of which relate to the commercial property sector.

### Land Acquisition

As all land in the PRC is either state-owned or collectively-owned, interests in land consist of land use rights, under which private parties (including individuals and corporate entities) may hold rights for investment or development purposes or transfer their interests to other parties. Individuals and corporate entities may acquire land use rights in a variety of ways, two of which being grants of land use rights from local land authorities and land transfers from land users who have already obtained land use rights.

Under the Regulations on the Grant of State-owned Construction Land Use Rights through Competitive Bidding, Public Auction and Listing-for-Sale (《招標拍賣掛牌出讓國有建設用地使用權規定》), promulgated by the Ministry of Land and Resources on 28 September 2007 and came into effect on 1 November 2007, land to be used for the purposes of industrial use, commercial use, tourism, entertainment or commodity residential property development shall be granted by the government only by means of competitive bidding, public auction or listing-for-sale. This regulation also governs the process of public tender, auction or listing-for-sale.

On 23 May 2012, the Ministry of Land and Resources and NDRC promulgated the Catalogue of Restrictive Land Supply Items (2012 Version) (《限制用地項目目錄(2012年本)》) and Catalogue of Forbidden Land Supply Items (2012 Version) (《禁止用地項目目錄(2012年本)》). This catalogue provides that, the new office buildings of the Chinese Communist Party ("**Party**") and government agencies, large-scale commercial or entertainment establishments, racing fields, motor vehicle training fields, burial grounds, large-sized housing projects are listed in the restrictive land supply items, and villas, golf courses, racing courses, and new, rebuilt or extended training centres of the Party and government agencies (including State-owned enterprises and institutional agencies) are classified as forbidden land supply items.

On 19 January 2007, the Ministry of Finance and State Taxation Administration issued a Notice about Implementing the Decision of the State Council on Amending the Interim Regulations of the People's Republic of China on Urban and Town Land Use Tax (關於貫徹落實國務院關於修改《中華人民共和國城鎮土地使用稅暫行條例》的決定的通知). The notice increases the annual land use tax and imposes such land use tax on foreign-invested enterprises.

Under the Urban and Rural Planning Law of the People's Republic of China (《中華人民共和國城鄉規劃法》) implemented on 1 January 2008 and revised on 24 April 2015, land without planning conditions cannot be granted. The developer needs to apply to urban and rural planning authorities of the city or county for the construction land planning permit after a grant contract of land use rights is executed. After execution of the land grant contract, the urban planning department cannot change the planning requirements under the land grant contract without authorisation. The development of projects must comply with the planning conditions. Within six months of the completion of projects, a developer needs to file documents with the urban and rural planning authorities.

Under the Notice on Strengthening the Administration of Land Assignment Revenues and Expenditures (《關於進一步加強土地出讓收支管理的通知》) issued by the Ministry of Finance, the Ministry of Land and Resources, PBOC, the Ministry of Supervision and the National Audit Office on 18 November 2009, land assignment revenues and expenditures shall be strictly included under local fund budget administration in full; the first payment shall not be less than 50% of the total land assignment price; land prices (rentals) shall be paid in a lump sum as and when they are due.

Under the Notice on Promoting the Stable and Healthy Development of the Real Estate Market (《關於促進房地產市場平穩健康發展的通知》) issued by the General Office of the State Council on 7 January 2010, land resource authorities shall effectively increase the supply of social welfare housing and ordinary commodity residential properties, direct consumers to make reasonable purchases of residential properties and discourage investment and speculation in the housing market and strengthen credit risk management for real estate projects and market supervision, etc.. As for the payment of land premium, the Circular on Certain Issues Concerning Strengthening Land Supply and Supervision for Real Estate (《關於加強房地產用地供應和監管有關問題的通知》) issued by the Ministry of Land and Resources on 8 March 2010 requires real estate development enterprises to make a 50% down-payment of the land premiums within one month from the date of the land grant contract, and to make the rest of the payment within a year. Upon paying in full the land premium pursuant to the terms of the contract, a land-grantee may apply to the relevant land bureau for the land use rights certificate. In accordance with the Property Rights Law (《中華人民共和國物權法》), which was effective as of 1 October 2007, the term of land use rights for land of residential use will automatically be renewed upon expiry. The renewal of the term of land use rights for other uses shall be dealt with according to the then-current relevant laws.

On 21 September 2010, the Ministry of Land and Resources and the Ministry of Housing and Urban-Rural Development (住房和城鄉建設部) jointly promulgated the Notice on Further Strengthening Control and Regulation of Land and Construction of Property Development (《關於進一步加強房地產用地和建設管理調控的通知》). According to the Notice, developers and their controlling shareholders are prohibited from participating in land biddings before the rectification of certain misconduct such as illegal transfer of land use rights; failure to commence required construction within one year from the delivery of land under land grant contracts due to such developers' own reasons and non-compliance with the land development requirements specified in land grant contracts.

Under the Law of the PRC on the Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》) implemented on 1 January 1995 and amended on 30 August 2007, real property that has not been registered and a title certificate for which has not been obtained in accordance with the law cannot be transferred. If land use rights are acquired by means of grant, the following conditions must have been met before the land use rights may be transferred: (i) the premium for the grant of land use rights must have been paid in full in accordance with the land grant contract and a land use right certificate must have been obtained; (ii) investment or development must have been made or carried out in accordance with terms of the land grant contract; (iii) for housing construction projects, more than 25% of the total amount of development for investment must have been made or completed; and (iv) where the development or investment involves a tract of land, conditions for use of the land for industrial or other construction purpose have been achieved.

**Demolition and Removal**

The Regulation on Expropriation of and Compensation for Buildings on State-owned Land (《國有土地上房屋徵收與補償條例》) promulgated by the State Council and effective on 21 January 2011 provides that buildings on state-owned land can be expropriated for public interest reasons, and those owners of expropriated buildings which are located on state-owned land are entitled to fair indemnification. Where a building is expropriated according to law, the corresponding right to use the state-owned land shall be retracted at the same time. Compensation agreements regarding the compensation methods, compensation amount, payment terms and other relevant issues shall be entered into between those expropriated owners and the relevant PRC governmental authorities responsible for house expropriation. The compensation for the value of the expropriated building shall not be less than the market price of a property similar to the expropriated building on the date of announcement of the decision to expropriate the building. The value of the expropriated building shall be assessed by a qualified real estate price assessment institution according to the assessment measures for building expropriation. Indemnification shall be made prior to the relocation.

In the event that no compensation agreement was reached within the time limit, the city or county government may make an administrative decision on the indemnification according to the report of the relevant PRC governmental authorities responsible for house expropriation and publish a government notice within the area of the expropriation. No enterprise or individual may compel the expropriated owners to relocate by means of violence, threat or other illegal methods. Real estate development enterprises are prohibited from participating in relocation arrangement.

**Idle Land**

Idle land is mainly governed by the Measures on Disposing Idle Land (《閒置土地處置辦法》) enacted and enforced on 28 April 1999 and revised on 1 June 2012 by the Ministry of Land and Resources. According to the measures, land can be classified as idle land under, among others, the following circumstances: (i) where development and construction of the state-owned land for construction has not been commenced by the land user at the expiry of one year from the date of commencing the development and construction agreed or prescribed in the "Contract on Paid Use of the Right to Use State-Owned Land for Construction" ("國有建設用地使用權有償使用合同") or the "Decision Letter on Allocation"

(“劃撥決定書”); or (ii) the development and construction of the state-owned land for construction has been commenced but the area so developed and constructed is less than one-third of the total area to be developed and constructed, or the invested amount is less than 25% of the total amount of investment, and the development and construction have been suspended for one year.

The competent land and resources authority at municipality or county level (the “**Competent Land and Resources Authority**”) is responsible for the investigation, ascertainment, organisation and implementation of disposal of the idle land. If the delay of commencing the development and construction is caused by the acts of government or other relevant government departments, after negotiating with the land user, the Competent Land and Resources Authority shall draft a proposal on the method of disposal of the idle land. The disposal proposal will be implemented after getting approved by the government at the same level of the Competent Land and Resources Authority. If the delay of commencing the development and construction is not caused by the acts of government or other relevant government departments, the idle land shall be disposed of in the following manner: (i) where the work has not been commenced for one year, the Competent Land and Resources Authority shall, upon approval of the government at the same level, issue a “Decision Letter on Levy of Surcharge on the Idle Land” (“徵繳土地閒置費決定書”) to the land user, and a surcharge on the idle land equivalent to a maximum of 20% of the grant or allocation premium may be levied; (ii) where the work has not been commenced for two years, the Competent Land and Resources Authority shall, pursuant to relevant regulations and upon approval of the government at the same level, issue a “Decision Letter on Confiscation of Land Use Right of State-Owned Land for Construction” (“收回國有建設用地使用權決定書”) to the land user, and the land can be confiscated without any compensation.

**Leases of Buildings**

Leasing of properties situated in urban areas has been governed by the Administrative Measures for Commodity House Leasing (《商品房屋租賃管理辦法》) since 1 February 2011. Pursuant to the measures, property owners are permitted to lease their properties to others for residential or commercial property uses except as otherwise prohibited by relevant law. Leasing of buildings and the underlying land use rights shall not exceed 20 years. The lease agreement becomes effective upon signing, but must be registered with the relevant real estate administration authority at the municipality or county level within 30 days after its execution for the purpose of protecting the tenant’s interest against claims from third parties.

On 30 July 2009, the Supreme People’s Court issued the Interpretation of Certain Issues concerning the Application of Law for Judging Disputes over Urban Building Leasing Contracts (《關於審理城鎮房屋租賃合同糾紛案件具體應用法律若干問題的解釋》) which became effective on 1 September 2009. The interpretation clarifies that courts should not uphold the claim that a building leasing contract is invalid due to the failure of registration: if parties agreed to condition the effectiveness of the building leasing contract upon the registration, such agreement shall prevail, unless one party has performed its substantial obligations under the leasing contract and the other party has accepted such performance.

**Property Financing**

In recent years, the PRC government promulgated various rules and policies to regulate real estate project financing, which may limit the foreign-owned real estate enterprises' ability to use bank loans to finance their property projects and therefore to maintain a relatively high level of sourced cash, for the business expansion in the PRC.

The PBOC Circular on Further Strengthening the Management of Loans for Property Business (《關於進一步加強房地產信貸業務管理的通知》) enacted on 5 June 2003 specifies the requirements for banks to provide loans for the purposes of property development as follows:

1. The loan by commercial banks to real estate development enterprises shall be granted only under the title of property development loan and it is strictly forbidden to extend such loans as current capital loan for property development project or other loan item. No lending of any type shall be granted to enterprises which have not obtained the State-owned Land Use Rights Certificate, Planning Permit for Construction Land, Planning Permit for Construction Works and Construction Permit for Construction Works;

2. Commercial banks shall not grant loans to real estate development enterprise to pay off land premium.

Pursuant to the Guidance on Risk Management of Property Loans of Commercial Banks (《商業銀行房地產貸款風險管理指引》) issued by China Banking Regulatory Commission ("**CBRC**") on 30 August 2004, any real estate development enterprise applying for property development loans shall have at least 35% of capital funds required for the development.

On 24 May 2006, the State Council forwarded the Opinion on Adjusting the Housing Supply Structure and Stabilising the Property Prices of the Ministry of Construction and Other Departments (《關於調整住房供應結構穩定住房價格的意見》). According to the regulations, commercial banks are not allowed to advance their loan facilities to real estate development enterprises which do not have the required 35% or more of the total capital fund for the construction projects. The commercial banks should be prudent in granting loan facilities and/or revolving credit facilities in any form to the real estate development enterprises which have a large number of idle lands and unsold commodity properties. Banks shall not accept mortgages of commodity properties remaining unsold for three years or longer.

Under the Circular of the State Council on Saving Intensive-use Land (《國務院關於促進節約集約用地的通知》) which was enacted on 3 January 2008, with regard to the real estate projects of which development or construction exceeds one year from the start date stated in the land use rights granting contract, for which less than 1/3 of the development area has been completed, or for which less than 1/4 of the investment has been made, the financial institutions should be very prudent when they provide loans and examine financing for such project, and they should be prudent to grant extended loan facilities and revolving credit facilities.

The Notice on Financially Promoting the Economisation and Intensive Use of Land (《關於金融促進節約集約用地的通知》) jointly issued by PBOC and CBRC on 29 July 2008, among other things,

- restricts PRC commercial banks from granting loans to property developers for the purpose of paying land premiums;
- regulates the secured loans for land reserve in various respects including to obtain land use certificate, to secure up to 70% value of security's appraised valuation, and to limit the length of maturity in no more than two years;
- restricts granting loans to the property developer, the land of which is idle for two years; and
- restricts taking idle land as a security for loans.

In accordance with the Notice Regarding Adjusting Capital Ratio of Fixed Assets Investment Project (《關於調整固定資產投資項目資本金比例的通知》) promulgated by the State Council on 25 May 2009, the minimum capital ratio for real estate development projects (other than low-income and ordinary commercial housing projects) has been reduced to 30%. When providing credit support and services, financial institutions shall carry out independent assessment to prevent financial risks and conduct comprehensive assessment and evaluation on the source of the capital, returns on investment and credit risks with reference to the capital ratio requirements promulgated by the state and the actual status of the borrower and the project, to independently decide whether to grant the loan and the specific amount and proportion of the loan.

On 7 January 2010, the General Office of the State Council issued the Circular on Promoting the Stable and Healthy Development of Real Estate Market (《關於促進房地產市場平穩健康發展的通知》), pursuant to which financial institutions are required to strictly adhere to requirements regarding internal capital ratios for real estate projects, and are prohibited from advancing funds to developers or projects that do not satisfy the requirements under the credit policies in relation to real estate development.

Notice of the State Council on Firmly Curbing the Surging Housing Prices in Certain Cities (《國務院關於堅決遏制部分城市房價過快上漲的通知》), which was promulgated and enforced on 17 April 2010, provides that (i) during the land bidding and the process of development and construction by a property development enterprise, its shareholders shall be forbidden from providing loans, sub-loans, guarantee or other relevant financing facilities to it. Commercial banks shall strengthen the pre-issuance examination and post-issuance management for the loans granted for the development of real estate development enterprises; and (ii) with regard to real estate development enterprises that have left land idle and are involved in land speculation, commercial banks shall not grant loans for their new development projects, and the securities regulatory departments shall suspend the approval of their listing, re-financing and material assets restructuring.

On 29 September 2010, the PBOC and CBRC jointly issued the Notice on Issues Concerning the Improvement of Differential Housing Credit Policies (《關於完善差別化住房信貸政策有關問題的通知》), pursuant to which all commercial banks are required to suspend the granting of loans for new development projects and to suspend the extension of loans to any real estate development enterprise which has left any land idle, changed the uses and nature of land, delayed the commencement of property projects or completion of construction, held back housing units for sale or violated any laws or regulations.

**Mortgage and Guarantee**

The mortgage of real estate in the PRC is mainly governed by the Property Rights Law (《中華人民共和國物權法》), Security Law of the PRC (《中華人民共和國擔保法》), the Law of the PRC on the Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》), or the Real Estate Law, the Regulation on Administration of Mortgages of Urban Real Estate (《城市房地產抵押管理辦法》). When a mortgage is created over the ownership of a completed building, the same will be simultaneously created over the land use rights of the land where the building is erected. The mortgagee and the mortgagor shall enter into a mortgage contract in writing which becomes effective on the date of the registration of such mortgage by the relevant real estate authority. Buildings newly-erected on a piece of urban land after a mortgage contract has been entered into shall not be a mortgaged property. If the mortgaged property is auctioned off, the new buildings added on the land may be auctioned together with the mortgaged property, but the mortgagee shall not be entitled to priority compensation from the proceeds of the auction of the new buildings.

**Ability to Obtain Offshore Financing**

On 11 July 2006, the Ministry of Construction, the MOFCOM, NDRC, the PBOC, the SAIC and SAFE jointly issued the Opinion on Regulating the Access and Management of Foreign Capital in the Real Estate Market (《關於規範房地產市場外資准入和管理的意見》) (the "**171 Opinion**"). The 171 Opinion provides, among others, where a foreign-invested real estate enterprise fails to pay its registered capital in full amount or fails to obtain the Certificate for Use of State-owned Land, or its project development capital does not reach 35% of the amount of its total project investment, the enterprise shall not be permitted to apply for loans onshore or offshore, and the relevant foreign exchange control department shall not give approval to the enterprise for settlement of foreign exchange loans.

**Civil Air Defense Works**

Pursuant to the Civil Air Defense Law of the PRC (《中華人民共和國人民防空法》) which was issued by the Standing Committee of the National People's Congress on 29 October 1996 and became effective on 1 July 1997, and Opinions to Further Promote Development of Civil Air Defense (《國務院、中央軍委關於進一步推進人民防空事業發展的若干意見》) (the "**Opinion**") which was issued by the State Council and Central Military Commission on 8 January 2008 and became effective on the same day, newly-built civil buildings in the cities shall have civil air defense basements. Civil air defense basements are basements that are constructed in combination with the surface buildings and that can be used for air defense in time of war. When there is a need for national defense such as wartime, the State will use the civil air defense works to prevent or minimise damage caused by air raid. In time of peace, the civil air defense basements shall be used and managed by the investors (i.e. the owners of the civil buildings) and the income therefrom shall be owned by them.

Pursuant to the Administrative Measures for Development and Usage of Civil Air Defense Works (《人民防空工程平時開發利用管理辦法》) which was issued by the Office of Civil Air Defense of the PRC on 1 November 2001 and became effective on the same day, if the user uses the civil air defense works to conduct business activities in time of peace, it shall pay user fees to the owner of the civil air defense works, and the user is not allowed to use the civil air defense works unless it has obtained the permit to use the civil air defense works at time of peace.

Pursuant to the Opinion, if it is difficult to construct civil air defense basement in combination with the civil building due to geological reasons, etc., the owner of the civil building shall pay construction fees to the government which will be used as fund to support construction of civil air defense works at another place.

## IV. LEGAL SUPERVISION OVER LABOUR PROTECTION IN THE PRC

According to the Labour Law of PRC (《中華人民共和國勞動法》) (Order No. 28 of the President), which was promulgated by the SCNPC on 5 July 1994, came into effect on 1 January 1995 and was amended on 27 August 2009, an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labour safety and health system, stringently implement national protocols and standards on labour safety and health, conduct labor safety and health education for workers, guard against labour accidents and reduce occupational hazards. Labour safety and health facilities must comply with relevant national standards. An employer must provide workers with the necessary labour protection gear that complies with labour safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards. Labourers engaged in special operations shall have received specialised training and obtained the pertinent qualifications. An employer shall develop a vocational training system. Vocational training funds shall be set aside and used in accordance with national regulations and vocational training for workers shall be carried out systematically based on the actual conditions of the company.

The Labour Contract Law of PRC (《中華人民共和國勞動合同法》) (Order No. 65 of the President), which was promulgated by the SCNPC on 29 June 2007, came into effect on 1 January 2008, and was amended on 28 December 2012 with the amendment being effective on 1 July 2013, and the Implementation Regulations on Labour Contract Law of PRC (《中華人民共和國勞動合同法實施條例》) (Order No. 535 of the State Council), which was promulgated and became effective on 18 September 2008, regulated both parties through a labour contract, namely the employer and the employee, and contain specific provisions involving the terms of the labour contract. It is stipulated under the Labour Contract Law of PRC and the Implementation Regulations on Labour Contract Law of PRC that a labour contract must be made in writing. An employer and an employee may enter into a fixed-term labour contract, an un-fixed term labour contract, or a labour contract that concludes upon the completion of certain work assignments, after reaching agreement upon due negotiations. An employer may legally terminate a labour contract and dismiss its employees after reaching agreement upon due negotiations with the employee or by fulfilling the statutory conditions. Labour contracts concluded prior to the enactment of the Labour Law and subsisting within the validity period thereof shall continue to be honored. With respect to the circumstance where a labour contracts relationship has already been established but no formal contract has been made, a written labour contracts shall be entered into within one month from the effective date of the Labour Contract Law.

According to the Interim Regulations on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), the Regulations on Work-Related Injury Insurance (《工傷保險條例》), the Regulations on Unemployment Insurance (《失業保險條例》) and the Trial Measures on Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》), enterprises in the PRC shall provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for or on behalf of employees. The Social Insurance Law of PRC (《中華人民共和國社會保險法》) (No. 35 of the President), which was promulgated on 28 October 2010 and became effective on 1 July 2011, has consolidated pertinent provisions for basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

According the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》) (Order No. 262 of the State Council), which was promulgated and became effective on 3 April 1999, and was amended on 24 March 2002, housing provident fund contributions by an individual employee and housing provident fund contributions by his or her employer shall belong to the individual employee.

The employer shall timely pay up and deposit housing provident fund contributions in full amount and late or insufficient payments shall be prohibited. The employer shall process housing provident fund payment and deposit registrations with the housing provident fund administration centre. With respect to companies who violate the above regulations and fail to process housing provident fund payment an deposit registrations or open housing provident fund administration centre to complete such procedures within a designated period. Those who fail to process their registrations within the designated period shall be subject to a fine ranging from RMB10,000 to RMB50,000. When companies breach these regulations and fail to pay up housing provident fund contributions in full amount as due, the housing provident fund administration centre shall order such companies to pay up within a designated period, and may further apply to the People's Court for mandatory enforcement against who still fail to comply after the expiry of such period.

## V. LEGAL REGULATIONS OVER TAX IN THE PRC

### Income Tax

According to the Enterprises Income Tax Law of PRC (《中華人民共和國企業所得稅法》) (the "**EIT Law**"), which was promulgated by the NPC on 16 March 2007 and came into effect on 1 January 2008, and the Implementation Regulations on the Enterprises Income Tax Law of PRC (《中華人民共和國企業所得稅法實施條例》), which was promulgated by the State Council on 6 December 2007 and came into effect on 1 January 2008, a uniform income tax rate of 25% will be applied to PRC enterprises, foreign-invested enterprises and foreign enterprises which have established production and operation facilities in the PRC or otherwise earned income sourced from PRC. These enterprises are classified as either resident enterprises or non-resident enterprises. Enterprises and other organisations that earn income within the territory of the PRC shall be the payers of enterprise income tax.

According to the EIT Law and its implementing regulations, PRC withholding tax at the rate of 10% is applicable to dividends payable to investors that are non-resident enterprises (who do not have an establishment or place of business in the PRC, or that have such establishment or place of business but to whom the relevant income tax is not effectively connected) to the extent that such dividends have their source within the PRC unless there is an applicable tax treaty between the PRC and the jurisdiction of the non-resident enterprise which may reduce or provide exemption to the relevant tax. Similarly, any gain realised on the transfer of shares by such investor is subject to 10% PRC income tax rate (or lower treaty rate if applicable) if such gain is regarded as income derived from sources within the PRC.

According to the Arrangement between the Mainland of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重征稅和防止偷漏稅的安排》), which was promulgated by the SAT and HK Special Administrative Region on 21 August 2006 and came into effect on 8 December 2006, a company incorporated in Hong Kong will be subject to withholding tax at the lower rate of 5% on dividends it receives from a company incorporated in the PRC if it holds a 25% interest or more in the PRC company. According to the Notice on the Understanding and Identification of the "Beneficial Owners" in the Tax Treaty (《國家稅務總局關於如何理解和認定稅收協議中"受益所有人"的通知》) (國稅函[2009]601號), which was promulgated by the SAT and became effective on 27 October 2009, business substance and a beneficial ownership analysis will be used based on a substance-over-form principle to determine whether or not to grant tax treaty benefits.

### Business Tax

According to the Temporary Regulations of PRC on Business Tax (《中華人民共和國營業稅暫行條例》) (Order No.136 of the State Council), which was promulgated by the State Council on 13 December 1993, came into effect on 1 January 1994, and was amended on 10 November 2008 with the amendment being effective on 1 January 2009, and the Detailed Implementing Rules on the Temporary Regulations of China on Business Tax (《中華人民共和國營業稅暫行條例實施細則》), which was promulgated by the Ministry of Finance of the People's Republic of China on 25 December 1993 and came into effect on 1 January 1994, was amended on 5 July 1996, 22 May 1997 and 15 December 2008 and further amended on 28 December 2011 with the amendment being effective on 1 November 2011, business tax is imposed on income derived from the furnishing of specified services and transferring of immovable property or intangible property by entities and individuals at rates ranging from 3% to 20%, depending on the activity.

**Value-added Tax**

According to the Temporary Regulations of PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) (Order No. 538 of the State Council), which was promulgated by the State Council on 13 December 1993, came into effect on 1 January 1994, and was amended on 10 November 2008 with the amendment being effective on 1 January 2009, and revised on 6 February 2016 and the Detailed Implementing Rules of the Temporary Regulations of PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》) (Order No. 65 of the Ministry of Finance), which was promulgated by the Ministry of Finance of the People's Republic of China and came into effect on 25 December 1993, and was amended on 15 December 2008, and further amended on 28 October 2011 with the amendment being effective on 1 November 2011, all taxpayers selling goods, providing processing, repairing or replacement services or importing goods within the PRC shall pay value-added tax. The tax rate of 17% shall be levied on general taxpayers selling or importing various goods; the tax rate of 17% shall be levied on the taxpayers providing processing, repairing or replacement service; the applicable rate for the export of goods by taxpayers shall be nil, unless otherwise stipulated.

Furthermore, according to the Notice of the Ministry of Finance and the State Administration of Taxation on Printing and Distributing the "Pilot Plan for the Imposition of Value-Added Tax to Replace Business Tax" (財政部、國家稅務總局關於印發《營業稅改徵增值稅試點方案》的通知) (財稅[2011]110號), which was promulgated by the Ministry of Finance and the SAT, the State began to launch taxation reforms in a gradual manner with effect from 1 January 2012, whereby the collection of value-added tax in lieu of business tax items was implemented on a trial basis in regions showing significant radiating effects in economic development and providing outstanding reform examples, beginning with productive service industries such as transportation and certain modern services industries.

## VI. LEGAL REGULATIONS OVER TRADEMARK IN THE PRC

Under the Trademark Law of PRC (《中華人民共和國商標法》), which was last amended on 30 August 2013, and came into effect on 1 May 2014, any of the following acts shall be deemed to be an infringement of the exclusive right to use a registered trademark:

- Using a trademark that is identical with a registered trademark on the same goods without the licensing of the registrant of the registered trademark;
- Using a trademark that is similar to a registered trademark on the same goods, or using a trademark that is identical to or similar to the registered trademark on similar goods without the licensing of the registrant of the registered trademark, which is likely to cause confusion;

- Sale of any goods that have infringed the exclusive right to use any registered trademark;
- Counterfeit or unauthorised production of the label of another's registered trademark, or sale of any such label that is counterfeited or produced without authorisation;
- Change of any trademark of a registrant without the registrant's consent, and selling goods bearing such replaced trademark on the market;
- Providing, intentionally, convenience for activities infringing upon others' exclusive right of trademark use, and facilitating others to commit infringement on the exclusive right of trademark use; or
- Other acts that have caused any other damage to another's exclusive right to use a registered trademark.

In the event where any of the above mentioned acts infringe the right to the exclusive use of a registered trademark, the infringer would be imposed a fine and/or ordered to cease the infringement acts immediately, and/or to pay the infringed party compensation.

## REGULATORY OVERVIEW OF THE RESTAURANT INDUSTRY IN HONG KONG

### Hong Kong regulatory overview

The following sets forth the most significant aspects of Hong Kong laws and regulations relating to the business operations of our Group in Hong Kong.

There are three principal types of licenses required for the operation of our Group's restaurant in Hong Kong, namely:

(a) a restaurant license required to be issued before commencement of business operation;

(b) a liquor license required to be issued before commencement of sale of liquor in the restaurant premises; and

(c) a water pollution control license required to be issued before any discharge of trade effluents into a communal sewer or communal drain in a water control zone commences.

### Health and Safety Regulatory Compliance

*Restaurant license*

Any person operating a restaurant in Hong Kong is required to obtain a restaurant license from the Food and Environmental Hygiene Department (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) (the "**FBR**") before commencing the restaurant business. It is provided under section 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 license. The FEHD will consider whether certain requirements in respect of health, hygiene, ventilation, gas safety, fire safety and building structure are met before issuing a restaurant license. The FEHD will also consult the Buildings Department and the Fire Services Department in accessing the suitability of premises for use as a restaurant, and consider the fulfilment of the Building Department's structural standard and the Fire Service Department's fire safety requirement. The FEHD may grant provisional restaurant licenses 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 license.

A provisional restaurant license is valid for a period of six months or a lesser period and a full restaurant license is valid generally for a period of one year, both subject to payment of the prescribed license fees and continuous compliance with the requirements under the relevant legislation and regulations. A provisional restaurant license is renewable on one occasion and a full restaurant license is renewable annually.

*Demerit points system*

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 license in respect of such licensed premises will be subject to suspension for 7 days ("**First Suspension**");

(b) if, within a period of 12 months from the date of the last offense 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 license 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 offense 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 license will be subject to cancellation;

(d) for multiple offenses found during any single inspection, the total number of demerit points registered against the license will be the sum of the demerit points for each of the offenses;

(e) the prescribed demerit points for a particular offense will be doubled and trebled if the same offense is committed for the second and the third time within a period of 12 months; and

(f) any alleged offense pending, that is the subject of a hearing and not yet taken into account when a license 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.

*Liquor license*

For the sale of liquor in a restaurant in Hong Kong, a restaurant operator must obtain a liquor license from the Liquor Licensing Board under the Dutiable Commodities Ordinance (Chapter 109 of the Laws of Hong Kong) (the "**DCO**") and the Dutiable Commodities (Liquor) Regulations (Chapter 109B of the Laws of Hong Kong) (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 license, no person shall sell, or advertise or expose for sale, or supply, or possess for sale or supply, liquor except with a liquor license. 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 license. The Liquor Licensing Board will consider the fitness of the applicant to hold the license, the suitability of the premises to which the application relates in supplying intoxicating liquor and the public interest before granting the liquor license. A liquor license will only be issued when the relevant premises have also been issued with a full or provisional restaurant license. A liquor license will only be valid if the relevant premises remain licensed as a restaurant. All applications for liquor license are referred to the Commissioner of Police and the District Officer concerned for comments.

A liquor license is valid for a period of one year or lesser period, subject to the continuous compliance with the requirements under the relevant legislation and regulations.

**Environmental Regulatory Compliance**

*Water Pollution Control License*

In respect of the restaurant operations of our Group in Hong Kong, it is necessary for our restaurant to obtain a water pollution control license from the EPD prior to any discharge of trade effluents under the WPCO.

Under sections 8(1) and 8(2) of the WPCO, a person who discharges (i) any waste or polluting matter into the waters of Hong Kong in a water control zone; or (ii) any matter into any inland waters in a water control zone which tends (either directly or in combination with other matter which has entered those waters) to impede the proper flow of the water in a manner leading or likely to lead to substantial aggravation of pollution, commits an offence and where any such matter is discharged from any premises, the occupier of the premises also commits an offence. Under sections 9(1) and 9(2) of the WPCO, a person who discharges any matter into a communal sewer or communal drain in a water control zone commits an offence and where any such matter is discharged into a communal sewer or communal drain in a water control zone from any premises, the occupier of the premises also commits an offence. Under section 12(1)(b) of the WPCO, a person does not commit an offence under section 8(1), 8(2), 9(1) or

9(2) of the WPCO if the discharge or deposit in question is made under, and in accordance with, a water pollution control license. A water pollution control license will be granted with terms and conditions specifying requirements relevant to the discharge, such as the discharge location, provision of wastewater treatment facilities, maximum allowable quantity, effluent standards, self-monitoring requirements and keeping records.

A water pollution control license granted by the EPD is generally valid for 5 years, subject to payment of the prescribed license fee and continuous compliance with the requirements under the relevant legislation and regulations. A water pollution control license is renewable.

Save as disclosed in the paragraph headed "Legal compliance and litigation" in the section headed "Business" in this listing document, our Directors confirm that our Group has obtained all material licenses, certificates and permits for carrying on our business activities as required under the relevant laws and regulations in Hong Kong during the Track Record Period and up to the Latest Practicable Date. As of the Latest Practicable Date, our Group has not received any notice, letters or documents in relation to the demerit points system.

## GENERAL

The shares of Lifestyle have been listed on the Main Board of the Stock Exchange since April 2004. The Lifestyle Group is principally engaged in the operation of department stores and other related operations and property holding. Since 2004, the Lifestyle Group had the opportunities to build up its department store business in the PRC, laying the foundation for the development of our Group.

### 1. Acquisition of 50% and 65% equity interests in Shanghai Joinbuy and Shanghai Ongoing

As our Group's first step to enter into the PRC market, in March 2004, an acquisition agreement was entered into between, inter alia, Excellent Global as purchaser and Pure Group Limited and Full Partner Limited as vendors in relation to the acquisition of the following interests:

(a) the entire issued share capital of Great Prosperity; and

(b) the shareholders' loan due from Great Prosperity to the vendors at completion.

Pure Group Limited was ultimately owned by Mr. Thomas Lau and a discretionary trust of which certain family members of Mr. Lau Luen Hung, Joseph, the elder brother of Mr. Thomas Lau, were eligible beneficiaries. Full Partner Limited was ultimately owned by Chow Tai Fook Enterprises Limited. Great Prosperity indirectly owns 50% equity interests in Shanghai Joinbuy and 65% equity interest in Shanghai Ongoing.

The consideration payable for acquiring the entire issued share capital of Great Prosperity was determined based on an amount equal to 94% of the valuation of the shopping complex located at Plot No. 117 Yuyuan Road, Jing'an District, Shanghai, the PRC (known as Shanghai Joinbuy CityPlaza in which our Shanghai Jiuguang operates) attributable to the interest held by Great Prosperity (assuming completion of its interior decoration and fitting out works) less the book costs of the shopping complex as at the completion date attributable to Great Prosperity, while the shareholders' loan was sold at the face value thereof. The consideration was also subject to a consideration adjustment mechanism based on (a) 50% of the difference between the total construction costs attributable to the shopping complex as certified by the independent auditor; and (b) such construction costs as appeared in the completion accounts at time of completion.

The purchase consideration for the acquisition of Great Prosperity was arrived after arm's length negotiations between the parties and was determined with reference to (a) the property valuation of the shopping complex as at 29 February 2004; (b) the shareholders' total investment in Great Prosperity of about HK$245,100,000 in aggregate as at 29 February 2004; and (c) the business prospects of Shanghai Joinbuy and Shanghai Ongoing, in particular, Shanghai Ongoing. The final purchase price allocated to the acquisition of the entire issued share capital of Great Prosperity and the shareholders' loan was in the aggregate sum of HK$500,000,000. Acquisition of Great Prosperity by our Group was completed on 7 January

2005. Upon completion, Shanghai Joinbuy, in which Smart Fortune has 50% equity interest, and Shanghai Ongoing, in which Gainbest has 65% equity interest, had become a joint venture and a non-wholly-owned subsidiary of Lifestyle, respectively.

Each of Smart Fortune and Gainbest is company incorporated in BVI which was held by Great Prosperity and formed or acquired on 17 June 2002 and 5 August 2002, respectively, for the purpose of holding interests in Shanghai Joinbuy and Shanghai Ongoing respectively.

*Shanghai Joinbuy*

Great Prosperity indirectly owns 50% equity interests in Shanghai Joinbuy through Smart Fortune, a wholly-owned subsidiary of Great Prosperity.

Shanghai Joinbuy was established in the PRC on 14 November 2002 as a wholly corporate-owned enterprise with an original registered capital of RMB170,000,000, which was contributed as to 90% by Joinbuy Group and 10% by 上海中安商貿總公司 (Shanghai Zhongan Trade Corporation*) ("**Shanghai Zhongan**"). On 16 April 2003, Joinbuy Group and Smart Fortune entered into an operating joint venture contract for the development, operation and management of Shanghai Jiuguang. On 7 May 2003, Shanghai Zhongan and Smart Fortune entered into a share transfer agreement whereby 10% equity interest in Shanghai Joinbuy was transferred by Shanghai Zhongan to Smart Fortune which took effect on 21 May 2003. On the same day, Joinbuy Group and Smart Fortune also entered into a share transfer agreement whereby 40% equity interest in Shanghai Joinbuy was transferred by Joinbuy Group to Smart Fortune. Shanghai Joinbuy became an equity joint venture enterprise between a PRC company and Hong Kong company on 21 May 2003 with total investment amount and registered capital of US$90,000,000 and US$30,000,000 respectively, the registered capital was contributed as to 50% by Joinbuy Group and 50% by Smart Fortune. On 26 August 2003, Joinbuy Group entered into an equity transfer agreement whereby Joinbuy Group agreed to transfer 16% equity interest in Shanghai Joinbuy to Joinbuy Investment which took effect on 8 December 2003. The registered capital of Shanghai Joinbuy was increased to US$35,000,000 on 8 December 2003. In February 2006, Joinbuy Group entered into a share transfer agreement whereby Joinbuy Group agreed to further transfer 22% equity interest in Shanghai Joinbuy to Joinbuy Investment which took effect on 3 December 2008. Upon completion of the above transfers and as at the Latest Practicable Date, Joinbuy Investment, Joinbuy Group and Smart Fortune held a 38%, 12% and 50% equity interest in Shanghai Joinbuy respectively. The registered capital of Shanghai Joinbuy has been fully paid up. As at the Latest Practicable Date, Shanghai Joinbuy is carrying on the business of holding the Shanghai Joinbuy CityPlaza.

*Shanghai Ongoing*

Great Prosperity indirectly owns 65% equity interests in Shanghai Ongoing through Gainbest, a wholly-owned subsidiary of Great Prosperity.

Shanghai Ongoing was established in the PRC as a sino-foreign equity joint venture enterprise on 26 July 2004 with total investment amount and the registered capital of US$10,000,000 and US$6,200,000 respectively. The registered capital was contributed as to 65% by Gainbest, 19% by Joinbuy Investment and 16% by Joinbuy Group. The total investment amount and the registered capital of Shanghai Ongoing were increased to US$24,500,000 and US$12,000,000 respectively on 24 January 2006. On 14 December 2007, Joinbuy Group and Joinbuy Investment entered into a share transfer agreement whereby Joinbuy Group agreed to transfer its 6% equity interest in Shanghai Ongoing to Joinbuy Investment which took effect on 14 January 2008. On 5 March 2008, Joinbuy Group entered into a share transfer agreement whereby Joinbuy Group agreed to further transfer 5% equity interest in Shanghai Ongoing to Joinbuy Investment which took effect on 16 October 2008. Upon completion of the above transfers and as at the Latest Practicable Date, Joinbuy Investment, Joinbuy Group and Gainbest held a 30%, 5% and 65% equity interest in Shanghai Ongoing respectively. The registered capital of Shanghai Ongoing has been fully paid up. As at the Latest Practicable Date, Shanghai Ongoing is principally engaged in the business of operating Shanghai Jiuguang.

**2. Acquisition of interests in Shenyang Land**

SY Foreversmart acquired the land use right of a piece of land covering a site area of approximately 55,880 sq.m. for a period of 40 years from the 瀋陽市土地儲備交易中心 (Land Reserve Trading Centre of Shenyang City) in December 2006. An auction confirmation letter was executed by both parties on 26 December 2006. The consideration was subject to adjustment according to the actual site area as stated in the land use right certificate which was approved and issued by the relevant PRC authorities based on the price of RMB18,366 per sq.m.. The final purchase price of the Shenyang Land was paid in cash in the sum of RMB423,817,489.20. In early 2007, the original piece of land was subdivided into two sections, one of which has a site area of around 23,076.20 sq.m. and was developed into Shenyang Jiuguang located at Zhongjie Road, a well-known pedestrian walk in Shenhe District. The operation of Shenyang Jiuguang commenced in October 2013 and ceased in December 2015. The land use right of the other section of the piece of land was surrendered by our Group back to Shenyang Planning & Land Bureau and subsequently acquired by the Lifestyle Properties Group.

*SY Foreversmart*

SY Foreversmart was established in the PRC as a wholly Hong Kong-corporate-owned enterprise on 1 December 2006 with both total investment amount and registered capital of US$29,990,000, which was wholly contributed by Forever Smart Limited (a wholly-owned subsidiary of our Company after the Reorganisation). The total investment amount and the registered capital of SY Foreversmart were increased to US$119,990,000 and US$74,990,000 respectively on 23 March 2007. SY Foreversmart had further increased its total investment amount and the registered capital to US$159,990,000 and US$94,990,000, respectively, on 12 November 2010. On 25 June 2012, the currency of the total investment amount and the registered capital of SY Foreversmart was changed from US$ to RMB, and the total investment amount was further increased. As at the Latest Practicable Date, the total investment amount and the registered capital of SY Foreversmart were RMB1,418,000,000 and RMB710,090,392, respectively. The registered capital of SY Foreversmart has been fully paid up. As at the Latest Practicable Date, Forever Smart Limited is the sole shareholder of SY Foreversmart. SY Foreversmart is carrying on the business of holding the property of Lifu Plaza.

**3. Establishment of Suzhou Lifestyle Plaza and acquisition of interests in Suzhou Land**

On 22 January 2007, Charm Wave and Suzhou Harmony, an Independent Third Party, entered into a joint venture agreement (the "**Suzhou JV Agreement**") for establishment of Suzhou Lifestyle Plaza for developing, operating and leasing of a shopping mall at 中國 — 新加坡蘇州工業園 (The China-Singapore Suzhou Industrial Park*) situated by the Jin Ji Lake in the east of Suzhou, the PRC (the "**Suzhou Industrial Park**"). Suzhou Harmony was then the developer of Suzhou Land. The term of the Suzhou JV Agreement was 40 years from the date of issue of the business license of Suzhou Lifestyle Plaza and was extendable at the agreement of the parties, and approval of the relevant PRC authorities.

Suzhou Lifestyle Plaza was established in the PRC as an equity joint venture-enterprise between a PRC company and Hong Kong company on 1 March 2007. Pursuant to the Suzhou JV Agreement, the initial investment amount of Suzhou Lifestyle Plaza was set at RMB780 million. The registered capital of Suzhou Lifestyle Plaza was RMB390 million of which a cash sum equivalent to RMB179.92 million (representing approximately 46.1% of the registered capital) was contributed by Charm Wave and assets comprising land use rights of the Suzhou Land and related works then thereon under construction with a total value of RMB210.08 million (representing approximately 53.9% of the registered capital) was contributed by Suzhou Harmony. The amount of registered capital and capital contribution was determined with reference to, among other things, the costs of the Suzhou Land and the incurred costs of the related works under construction, and the percentage of equity interests to be held respectively by the parties. It was a term of the Suzhou JV Agreement that Charm Wave or its nominee should, either in one whole lot or in stages within 12 months from the date of establishment of Suzhou Lifestyle Plaza, acquire the remaining 53.9% of the equity interest held by Suzhou Harmony in Suzhou Lifestyle Plaza to the effect that Suzhou Lifestyle Plaza would be wholly-owned by Charm Wave or its nominee.

On 17 November 2007, Charm Wave as purchaser and Suzhou Harmony as vendor entered into an equity interest transfer agreement (the "**First Suzhou Equity Transfer Agreement**") pursuant to which Suzhou Harmony transferred to Charm Wave 17% equity interest in Suzhou Lifestyle Plaza. The consideration was RMB66.3 million, 50% of the consideration was paid in cash on the date of the First Suzhou Equity Transfer Agreement and the remaining 50% was payable in cash within five days from the date of the First Suzhou Equity Transfer Agreement. The consideration was determined with reference to the net asset value of Suzhou Lifestyle Plaza as at 31 October 2007. Necessary approvals in relation to the transfer have been obtained from the relevant PRC authorities, upon completion of the above transfer on 21 December 2007, Suzhou Lifestyle Plaza became a 63.1% owned subsidiary of Charm Wave.

The total investment amount and the registered capital of Suzhou Lifestyle Plaza was increased to RMB1,200,000,000 and RMB600,000,000, respectively, on 17 April 2008. As the additional registered capital of RMB210,000,000 was solely contributed by Charm Wave pursuant to the board resolution of Suzhou Lifestyle Plaza dated January 4, 2008, Charm Wave's equity interest in Suzhou Lifestyle Plaza had increased from 63.1% to 76%.

On 10 July 2009, Charm Wave as purchaser and Suzhou Harmony as vendor entered into an equity transfer agreement for the transfer of 4% of the equity interest in Suzhou Lifestyle Plaza at the consideration of RMB32,320,000. Necessary approvals in relation to the transfer have been obtained from the relevant PRC authorities, upon completion of the above transfer on 13 July 2009, Suzhou Lifestyle Plaza was owned as to 20% by Suzhou Harmony and 80% by Charm Wave.

On 31 December 2009, Lifestyle (China) Investment, as purchaser and Suzhou Harmony as vendor entered into an equity interest transfer agreement (the "**Second Suzhou Equity Transfer Agreement**") whereby Suzhou Harmony agreed to transfer 20% equity interest in Suzhou Lifestyle Plaza to Lifestyle (China) Investment at the consideration of RMB142,938,422. The consideration was paid in cash within 30 days after the Second Suzhou Equity Transfer Agreement became effective. The consideration represented a premium of approximately RMB400,000 over the 20% share of the appraised net asset value of Suzhou Lifestyle Plaza of RMB142.53 million as at 31 July 2009. The consideration was arrived at after arm's length negotiations between the parties by reference to the appraised net asset value of Suzhou Lifestyle Plaza and the significance of the 20% remaining equity interest to the strategic considerations of the Lifestyle Group with respect to Suzhou Lifestyle Plaza. Necessary approvals in relation to the transfer have been obtained from the relevant PRC authorities, following completion of the above transfer, Suzhou Lifestyle Plaza had become a wholly-owned subsidiary of the Lifestyle Group, which was held as to 80% by Charm Wave and 20% by Lifestyle (China) Investment. Suzhou Lifestyle Plaza became a wholly Hong Kong-corporate-owned enterprise on 25 February 2010.

On 17 November 2014, Suzhou Lifestyle Plaza entered into a merger and acquisition agreement with Ongoing (Suzhou), the company that operated Suzhou Jiuguang before it was dissolved, whereby it was agreed that Suzhou Lifestyle Plaza would acquire and merge with Ongoing (Suzhou), and after such merger and acquisition, Ongoing (Suzhou) would be dissolved. The sole shareholder of Ongoing (Suzhou) before the merger and acquisition was Nice Union. After the merger, the total investment amount and registered capital of Suzhou Lifestyle Plaza was RMB1,371,409,350 and RMB683,955,600, respectively. The registered capital of RMB683,955,600 was contributed as to RMB120,000,000 by Lifestyle (China) Investment, RMB480,000,000 by Charm Wave and RMB83,955,600 by Nice Union. Necessary approvals in relation to the merger have been obtained from the relevant PRC authorities. Following completion of the above merger and acquisition, the shareholding interest in the registered capital of Suzhou Lifestyle Plaza is owned as to 17.54% by Lifestyle (China) Investment, 70.18% by Charm Wave and 12.28% by Nice Union.

As at the Latest Practicable Date, Suzhou Lifestyle Plaza is carrying on the business of holding the property of Suzhou Jiuguang and the operation of Suzhou Jiuguang. The registered capital of Suzhou Lifestyle Plaza has been fully paid up.

*Suzhou Ongoing*

Suzhou Ongoing was established in the PRC as a wholly corporate-owned enterprise on 5 August 2015 with the registered capital of RMB10,000. The registered capital of Suzhou Ongoing has been fully paid up as at the Latest Practicable Date. Suzhou Ongoing has not commenced business as at the Latest Practicable Date.

**4. Acquisition of interests in Lifestyle (Dalian)**

In July 2007, a formal sale and purchase agreement (which replaced the legally-binding heads of agreement in April 2007) was entered into between a retail group based in Japan (the "**Japan Vendor**"), an Independent Third Party, and Beauty Power, in relation to the acquisition of, inter alia:

(a) 100% equity interest of a company which then owned a property located in Qingdao, the PRC (the "**Qingdao Property Company**");

(b) 100% equity interest of a company which then owned a property located in Harbin, the PRC (the "**Harbin Property Company**");

(c) 97.5% equity interest of a company which then owned a property located in Tianjin, the PRC (the "**Tianjin Property Company**"); and

(d) 100% equity interest of Lifestyle (Dalian) which then owned the Dalian Property, which was used for department store operation.

Separate equity transfer agreements were entered into between the subsidiaries of Beauty Power and the Japan Vendor in April and May 2008 for the transfer of the entire equity interest in each of the Qingdao Property Company, the Harbin Property Company, the Tianjin Property Company and Lifestyle (Dalian). Except for Lifestyle (Dalian), the Qingdao Property Company, the Harbin Property Company and the Tianjin Property Company were injected into the Lifestyle Properties Group under the LP Spin-off.

In respect of the acquisition of interest in Lifestyle (Dalian), approval of such acquisition from relevant PRC authorities was obtained on 8 July 2008. After that Lifestyle (Dalian) became wholly-owned by Super Gallant Limited which was in turn wholly-owned by Noble Sea Limited, both of which are wholly-owned subsidiaries of our Company after the Reorganisation.

The purchase consideration for the acquisition of the Qingdao Property Company, the Harbin Property Company, the Tianjin Property Company and Lifestyle (Dalian) as a package was arrived at after arm's length negotiations between the parties and was determined after taking into account the net asset value of such companies as at 31 December 2006, the independent valuation of the respective properties as at 5 April 2007 and the fact that it was a bundled transaction. The purchase consideration was also subject to a consideration adjustment mechanism based on the net asset value of such companies as at completion of the acquisition. The final purchase price was allocated to the acquisition of Lifestyle (Dalian) in the sum of RMB274.5 million. The consideration for the acquisition had been settled by Beauty Power.

Super Gallant Limited is a company incorporated in Hong Kong on 1 June 2007 while Noble Sea Limited is a company incorporated in BVI on 3 May 2007. These BVI and Hong Kong companies were held by Beauty Power and formed or acquired for the purpose of holding interests in Lifestyle (Dalian). After completion of the acquisition, the Dalian Property was transformed into Dalian Jiuguang.

*Lifestyle (Dalian)*

Lifestyle (Dalian) was established in the PRC on 9 October 1993 as a sino-foreign equity joint venture enterprise. At the time of its establishment, its name was 大連遠東房地產有限公司 (Dalian Far East Real Estate Co., Ltd.*) with total investment amount and the registered capital of RMB120,000,000 and RMB48,000,000, respectively. In 1996, the total investment amount and the registered capital of Lifestyle (Dalian) were changed to US$80,000,000 and US$50,000,000, respectively, and its company name was changed to 大連伊都錦大廈有限公司 (Dalian Itokin Building Company Limited*). On 19 October 2007, its registered capital was reduced from US$50,000,000 to US$45,000,000 and Lifestyle (Dalian) became a wholly Hong Kong-corporate-owned enterprise. Upon the acquisition of the entire equity interest in Lifestyle (Dalian) by the Lifestyle Group on 8 July 2008, its company name was changed to 利福商廈(大連)有限公司 (Lifestyle Commercial Building (Dalian) Co., Ltd.*). As at the Latest Practicable Date, Lifestyle (Dalian) had a total investment amount and registered capital of US$80,000,000 and US$45,000,000, respectively. The registered capital of Lifestyle (Dalian) has been fully paid up. Lifestyle (Dalian) is carrying on the business of holding the property of Dalian Jiuguang and the operation of Dalian Jiuguang.

**5. Acquisition of interests in the Beiren Group**

*Hebei Future Mall*

On 28 September 2007, Win Early Limited, a wholly-owned subsidiary of Lifestyle at the material time and of our Company after the Reorganisation, entered into an acquisition agreement (the "**Kaiyuan Acquisition Agreement**") with an Independent Third Party in relation to the acquisition of 6,000 shares of Ample Sun representing 60% of the then issued share capital of Ample Sun. At the time of acquisition, Ample Sun owned 99% of the equity in Hebei Future Mall. As to the remaining 1% equity interest in Hebei Future Mall, it was held by Kaiyuan Trading. Ample Sun is an investment holding company incorporated in Hong Kong on 17 August 2007 for the purpose of holding interests in Hebei Future Mall. Hebei Future Mall was an equity joint venture enterprise between a PRC company and a Taiwan/Hong Kong/Macau company established in the PRC on 27 May 2005. The major asset of Hebei Future Mall was Future Mall, which is a shopping complex with a gross floor area of approximately 162,142.02 sq.m.. The purchase consideration for the 60% equity interest acquisition was set at RMB538,989,000 at the time of acquisition, subject to adjustment to be made after completion to the final consideration when the final consideration had been deduced in accordance with the formula agreed by the parties in the Kaiyuan Acquisition Agreement. The final purchase price was allocated to the acquisition of 60% equity interest in Ample Sun in the sum of HK$557,588,000. Under the Kaiyuan Acquisition Agreement, the vendor guaranteed the amount of investment income for the purchaser from the acquisition, including any attributable net profit after tax but before depreciation and amortisation from Hebei Future Mall, during the period between the completion date and 30 April 2011 would not be less than RMB100,000,000.

On 21 March 2008, the shareholding interest of Hebei Future Mall was changed to 51% by Xuheng, 48% by Ample Sun and 1% by Kaiyuan Trading. On 12 June 2014, Kaiyuan Trading transferred the 1% equity interest it held in Hebei Future Mall to 河北瑞拓汽車貿易有限公司 (Hebei Ruituo Auto Trading Co., Ltd.), which further transferred the same to Ample Sun on 10 August 2015.

*Xuheng*

Xuheng was established in the PRC as a wholly corporate-owned enterprise on 21 February 2008 with a registered capital of RMB39,000,000, which were wholly contributed by Xiantianxia Development. On 19 March 2008, the entire equity interest in Xuheng was transferred to Yishang Trading at the consideration of RMB39,000,000, and Yishang Trading is the sole shareholder of Xuheng as at the Latest Practicable Date.

*Hebei Xuyuan, Beiguo and Beiren*

Pursuant to an equity interest agreement in relation to Hebei Future Mall dated 20 April 2008 entered into between Xuheng and Kaiyuan Property and an undated equity interest agreement in relation to Hebei Xuyuan entered into between Xuheng and Kaiyuan Property in 2008 (collectively the "**Kaiyuan Swap Agreements**"), 51% equity interest in Hebei Future Mall held by Xuheng was transferred to Kaiyuan Property in exchange for the entire equity interest in Hebei Xuyuan held by Kaiyuan Property. Necessary approvals in relation to the transfer have been obtained from the relevant PRC authorities, upon completion of the Kaiyuan Swap Agreements, the shareholding interest of Hebei Future Mall was held as to 51% by Kaiyuan Property, 48% by Ample Sun and 1% by Kaiyuan Trading.

Hebei Xuyuan was established in the PRC as a wholly corporate-owned enterprise on 23 November 2007. The principal businesses of Hebei Xuyuan are investment and investment consultation for various business enterprises (excluding consultation on securities and futures). The sole asset of Hebei Xuyuan at the time of the Kaiyuan Swap Agreements was its 16.05% equity interest in Beiguo and 30% equity interest in Beiren. As a result of the capital increase in Beiguo on 31 December 2015, Hebei Xuyuan's equity interest in Beiguo was diluted to 15.05%. Both Beiguo and Beiren are state-holding enterprises established in the PRC.

Hebei Xuyuan's equity interest in Beiren was reduced to 21.86% on 30 December 2009. Beiren is owned as to 27.14% by Beijing Huitong, 21.86% by Hebei Xuyuan and 51% by the State Assets Administration Commission of Shijiazhuang City (石家莊市國有資產管理委員會) as at the Latest Practicable Date. Beiguo is owned as to 69.31% by Beiren, 15.05% by Hebei Xuyuan and 15.64% by the internal staff of Beiguo as at the Latest Practicable Date.

The Beiren Group is a leading state-owned retail group based in Shijiazhuang, Hebei Province, the PRC with retail businesses covering department store operations, supermarkets, electrical appliances and consumer electronics and distribution of branded gold jewellery under franchising arrangement.

After the Kaiyuan Swap Agreements, the 51% equity interest of Hebei Future Mall was transferred from Kaiyuan Property to Beiren on 19 May 2008, and the 51% equity interest was further transferred from Beiren to Beiguo on 12 December 2011. Its company name was changed to Hebei Future Mall Company Limited (河北北國先天下廣場有限責任公司) on 20 February 2009. As at the Latest Practicable Date, the shareholding interest of Hebei Future Mall is held as to 51% by Beiguo and 49% by Ample Sun.

*Yishang Trading and Wingold*

Yishang Trading was established in the PRC as a wholly-owned enterprise by a Taiwan/Hong Kong/Macau company on 11 March 2008 with total investment amount and registered capital of RMB78,000,000 and RMB39,000,000, respectively, which was wholly contributed by Ample Sun. The entire equity interest was transferred by Ample Sun to Wingold on 9 January 2009 at the consideration of RMB39,000,000 and the necessary approvals in relation to the transfer have been obtained from the relevant PRC authorities. Wingold is the sole shareholder of Yishang Trading as at the Latest Practicable Date.

*Beijing Huitong*

Beijing Huitong was established in the PRC as a wholly corporate-owned enterprise on 1 February 2008. At the time of its establishment, its name was 北京開元扶信置業有限公司 (Beijing Kaiyuan Fuxin Development Co., Ltd.*) with a registered capital of RMB100,000,000. The registered capital was contributed as to 80% by Kaiyuan Property and 20% by Xiantianxia Development. On 11 September 2008, Kaiyuan Property transferred its 80% equity interest in Beijing Huitong to Xiantianxia Development and the company name of Beijing Huitong was changed to 北京匯通潤信貿易有限公司 (Beijing Hutong Runxin Trading Company Limited*). On 9 February 2010, Hebei Xuyuan as purchaser and Xiantianxia Development as vendor entered into an equity transfer agreement whereby Xiantianxia Development agreed to transfer the entire equity interest in Beijing Huitong (represented by RMB100,000,000 of the registered capital of Beijing Huitong) to Hebei Xuyuan at the consideration of RMB100,000,000. Necessary approvals in relation to the transfer have been obtained from the relevant PRC authorities. Such equity transfer was completed on 9 February 2010. Subsequently on 11 February 2010, an agreement for the transfer of the account receivable owing by Beijing Huitong to Xiantianxia Development in the sum of RMB246,488,200 (the "**Xiantianxia Shareholder's Loan**") was entered into between Hebei Xuyuan as purchaser, Xiantianxia Development as vendor and Beijing Huitong whereby Xiantianxia Development agreed to transfer the Xiantianxia Shareholder's Loan to Hebei Xuyuan at the consideration of RMB246,488,200. Beijing Huitong was then interested in 27.14% equity interest of the registered capital of Beiren.

### 6. Acquisition of Jing'an Land

On 13 December 2011, Lifestyle China has made a successful bid for the land use right of the Jing'an Land at a price of RMB2,467,000,000 through an open tender organised by the 上海市土地交易事務中心 (Land Transaction Centre*). Shanghai Liyida entered into the《上海市國有建設用地使用權出讓合同》(contract for the grant of land use right of state-owned construction land in Shanghai Municipal) (the "**Land Grant Contract**") with 上海市閘北區規劃和土地管理局 (Bureau of Planning and Land Resources of Zhabei District, Shanghai*) on 31 May 2012 for the acquisition of the Jing'an Land. Under the Land Grant Contract, the term of the land use right for the Jing'an Land is 40 years for commercial and other commercial service uses (entertainment), and 50 years for office and recreational uses. The consideration was arrived at as a result of successful bid by Lifestyle China through open tender and was determined after taking into account the minimum bid price, current market conditions and property price in the surrounding areas. The Jing'an Land is under development into a commercial complex comprising a sizeable retail premises, office buildings, and our Group's second Jiuguang store in Shanghai. Construction work commenced in December 2013 and is targeted to be completed in 2018.

*Shanghai Liyida*

Shanghai Liyida was established in the PRC as a wholly Hong Kong-corporate-owned enterprise on 23 April 2012 with total investment amount and registered capital of RMB4,999,000,000 and RMB2,500,000,000, respectively. The registered capital was wholly contributed by Lifestyle China. The principal activities of Shanghai Liyida are the property and related business facilities development, operation, leasing, sale and related consultancy services in the Jing'an Land.

### 7. Commencement of operation of our first standalone supermarket under the Freshmart Brand

Our Group's first standalone supermarket under the Freshmart Brand (being previously only operated within our department stores) was launched in July 2013 inside the "L'Avenue Shanghai" located in the Hongqiao Economic Development Zone of Shanghai.

Shanghai Lihaichao was established in the PRC as a wholly-owned enterprise by a Hong Kong-corporate owned investment company on 31 March 2012. The initial total investment amount and registered capital was RMB1,400,000 and RMB1,000,000, respectively, which was increased to RMB28,050,000 and RMB15,000,000, respectively, on 6 February 2013. The registered capital was wholly contributed by Lifestyle (China) Investment. The principal activity of Shanghai Lihaichao is the operation of our supermarket under the Freshmart Brand in the Hongqiao Economic Development Zone of Shanghai.

**8. Establishment of restaurant business in PRC**

Wa San Mai (Shanghai) was established in the PRC as a wholly Hong Kong-corporate-owned enterprise on 26 September 2008 with total investment amount and registered capital of US$200,000 and US$140,000, respectively. The registered capital of Wa San Mai (Shanghai) was wholly contributed by Lifestyle China. The principal activities of Wa San Mai (Shanghai) are the operation and management of Wa San Mai in Shanghai and Suzhou, details of which are set out in the section headed "Business" in this listing document.

Sweetolive was established in the PRC as a wholly Hong Kong-corporate-owned enterprise on 10 August 2004 with total investment amount and registered capital of US$200,000 and US$140,000 respectively. The registered capital of Sweetolive was wholly contributed by Dragon Sign Limited, a company incorporated in Hong Kong on 13 April 2004 which is owned as to 50% by Lifestyle China. The principal activities of Sweetolive are the operation of Longji and Royal China situated in Shanghai and Suzhou, details of which are set out in the section headed "Business" in this listing document.

**9. Establishment of major operating Hong Kong subsidiary**

*Global Top*

On 12 January 2006, Global Top was incorporated in Hong Kong with an authorised share capital of HK$10,000 divided into 10,000 shares with a par value of HK$1.00 each and on the same date, Global Top allotted and issued one share to Ready-Made Incorporations Limited.

On 20 January 2006, Ready-Made Incorporations Limited transferred its one share in Global Top to Vision Pilot for cash at par. As a result, Vision Pilot became the sole shareholder of Global Top holding such one share of Global Top, which constituted the entire issued share capital of Global Top, prior to the Reorganisation.

Global Top is the operator of Wa San Mai in Hong Kong, details of which are set out in the section headed "Business" in this listing document. Following the Reorganisation, Global Top has become a direct wholly-owned subsidiary of Majestic Eagle.

## BUSINESS MILESTONES

The table below sets out the business milestones of our Group:

| Date | Milestones |
|---|---|
| Mar 2004 | Acquisition of 50% and 65% equity interests in Shanghai Joinbuy and Shanghai Ongoing |
| Sep 2004 | Shanghai Jiuguang commenced operation |
| Mar 2007 | Granting of land use right in the Suzhou Land |
| Jul 2008 | Completed the acquisition of interests in Lifestyle (Dalian) |

| Date | Milestones |
| --- | --- |
| Jan 2009 | Suzhou Jiuguang commenced operation |
| May 2009 | Dalian Jiuguang commenced operation |
| Apr 2010 | Granting of land use right in the Shenyang Land |
| Oct 2012 | Granting of real estate interests in the Jing'an Land |
| Jul 2013 | Our Group's first standalone supermarket under the Freshmart Brand launched in Shanghai |
| Oct 2013 | Shenyang Jiuguang commenced operation |
| Dec 2015 | Closure of Shenyang Jiuguang |

## GENERAL

In contemplation of the Listing, members of our Group have undergone certain restructuring steps whereby a coherent corporate structure of our Group has been established in preparation for the Listing. The Reorganisation involved the following principal steps:

1. incorporation of our Company;

2. incorporation of Majestic Eagle and Wise Fortune;

3. transfer of the entire issued share capital of Global Top by Vision Pilot to Majestic Eagle;

4. allotment of shares by Lifestyle China to Majestic Eagle;

5. transfer of the Lifestyle China share held by Lifestyle to Majestic Eagle;

6. transfer of the entire issued share capital of Majestic Eagle and Excellent Global by Lifestyle to our Company;

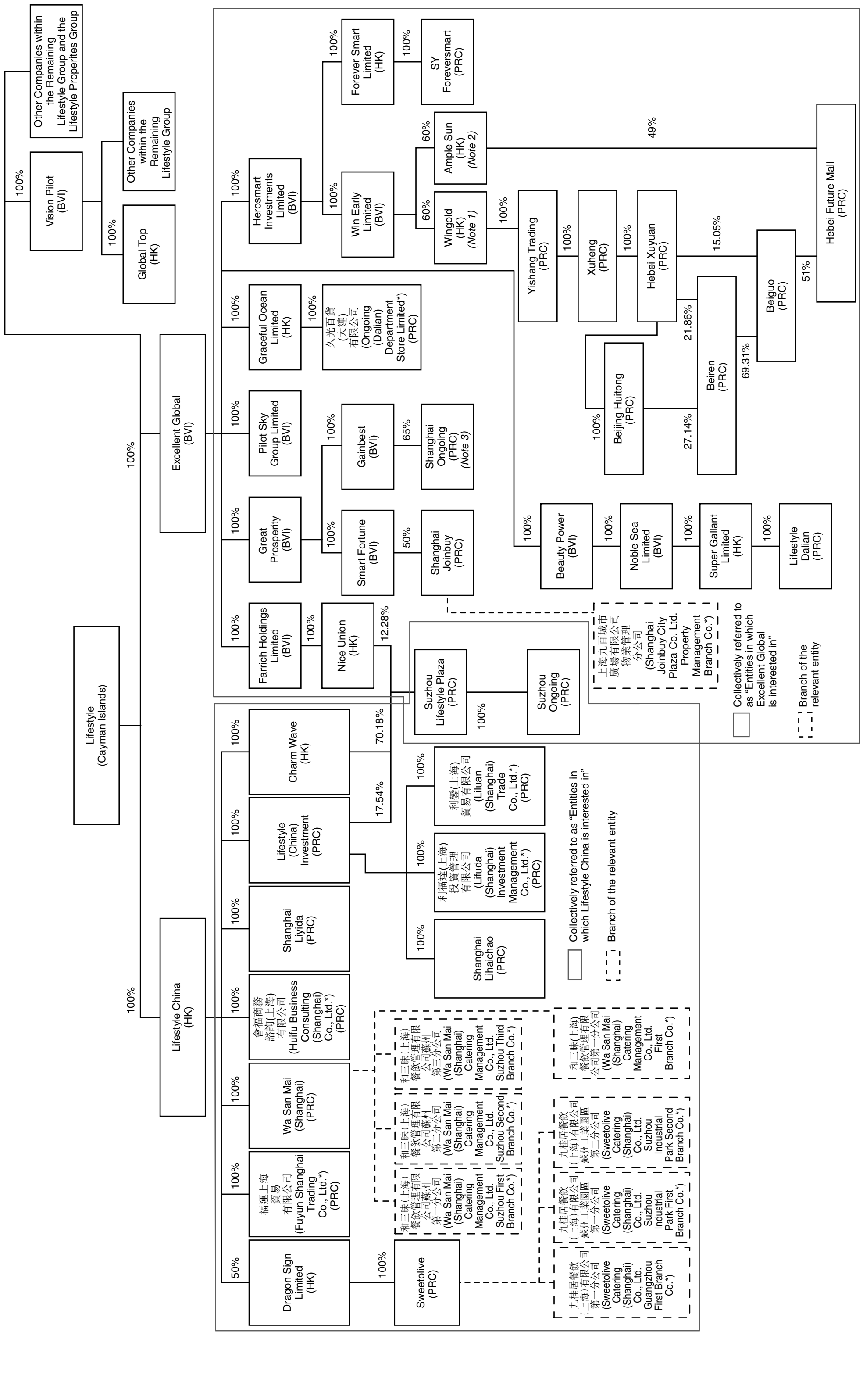
7. subdivision of shares and increase of authorised share capital of our Company;

8. novation of the Excellent Global Loan (as defined below) by Excellent Global to our Company and novation of the Lifestyle China Loan (as defined below) by Lifestyle China to our Company; and

9. issue of new Shares to Lifestyle by way of capitalisation of all the debts due from our Company to Lifestyle.

## CORPORATE STRUCTURE PRIOR TO THE REORGANISATION

Set out below is the shareholding structure of our Group immediately prior to the Reorganisation:



*Notes:*

1. Wingold is owned as to 60% by Win Early Limited and 40% by Smart Success Investment Limited, which, save for being a substantial shareholder of Wingold and Ample Sun by virtue of its 40% and 40% shareholdings in these companies, is an Independent Third Party.

2. Ample Sun is owned as to 60% by Win Early Limited and 40% by Smart Success Investment Limited, which, save for being a substantial shareholder of Wingold and Ample Sun by virtue of its 40% and 40% shareholdings in these companies, is an Independent Third Party.

3. The equity interest in Shanghai Ongoing is owned as to 65% by Gainbest, 30% by Joinbuy Investment and 5% by Joinbuy Group. Save for their respective 30% and 5% interest in Shanghai Ongoing and their respective 38% and 12% interest in Shanghai Joinbuy, Joinbuy Investment and Joinbuy Group are Independent Third Parties.

## DETAILED PROCEDURES

For the purpose of Listing, the following Reorganisation steps have been taken:

### 1. Incorporation of our Company

On 4 January 2016, our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability with an authorised share capital of HK$380,000 divided into 3,800,000 shares of HK$0.10 each. 1 share of HK$0.10 in our Company was issued to the initial subscriber, Sharon Pierson, for cash at par, which subscriber share was transferred to Lifestyle at par on the same date.

### 2. Incorporation of Majestic Eagle and Wise Fortune

On 23 November 2015, Majestic Eagle was incorporated in BVI and authorised to issue a maximum of 50,000 shares of US$1.00 each. On 1 December 2015, 1 share in Majestic Eagle was allotted and issued to Lifestyle for cash at par.

On 18 September 2015, Wise Fortune was incorporated in Hong Kong. On 1 December 2015, 1 share in Wise Fortune was issued to the initial subscriber, Ready-Made Company Limited, for cash at HK$1, which subscriber share was transferred to Lifestyle China for cash at HK$1. On 13 May 2016, Majestic Eagle acquired 1 share representing the entire share capital of Wise Fortune from Lifestyle China for a total consideration of HK$1.

### 3. Transfer of the entire issued share capital of Global Top by Vision Pilot to Majestic Eagle

On 12 May 2016, Majestic Eagle acquired 1 share representing the entire issued share capital of Global Top from Vision Pilot for a total consideration of HK$8,252,169.83, which consideration was satisfied by way of Majestic Eagle allotting and issuing 1 new share of par value of US$1 each, credited as fully paid, to Lifestyle as directed by Vision Pilot. In consideration of Lifestyle being allotted and issued such 1 new share in Majestic Eagle as directed by Vision Pilot, Lifestyle was deemed to be indebted to Vision Pilot an amount equivalent to the transfer consideration.

### 4. Allotment of shares by Lifestyle China to Majestic Eagle

On 13 May 2016, 10,000 shares in Lifestyle China were issued to Majestic Eagle for cash for a total consideration of HK$10,000.

### 5. Transfer of the Lifestyle China share held by Lifestyle to Majestic Eagle

On 19 May 2016, Majestic Eagle acquired 1 share representing approximately 0.01% of the entire issued share capital of Lifestyle China from Lifestyle for a total consideration of HK$1.

### 6. Transfer of the entire issued share capital of Majestic Eagle and Excellent Global by Lifestyle to our Company

On 23 June 2016, our Company acquired the entire issued share capital of Majestic Eagle from Lifestyle for a total consideration of US$2, which was satisfied by way of our Company allotting and issuing 1 new share of par value of HK$0.10 each, credited as fully paid, to Lifestyle.

On 23 June 2016, our Company acquired the entire issued share capital of Excellent Global from Lifestyle in consideration of our Company allotting and issuing 1 new share of par value of HK$0.10 each, credited as fully paid, to Lifestyle.

### 7. Subdivision of shares and increase of authorised share capital of our Company

On 23 June 2016, each of the issued and unissued shares of HK$0.10 each in the share capital of our Company was subdivided into 20 Shares of par value of HK$0.005 each, and the authorised share capital of our Company was then further increased from HK$380,000 to HK$20,000,000 by the creation of an additional 3,924,000,000 Shares.

### 8. Novation of the Excellent Global Loan (as defined below) by Excellent Global to our Company and novation of the Lifestyle China Loan (as defined below) by Lifestyle China to our Company

On 23 June 2016, all the liabilities in respect of all sums due or owing from Excellent Global to Lifestyle (the "**Excellent Global Loan**") was novated to our Company such that the Excellent Global Loan became owed by our Company instead of Excellent Global to Lifestyle. In consideration of such novation of loan, Excellent Global was deemed to be indebted to our Company an amount equivalent to the Excellent Global Loan.

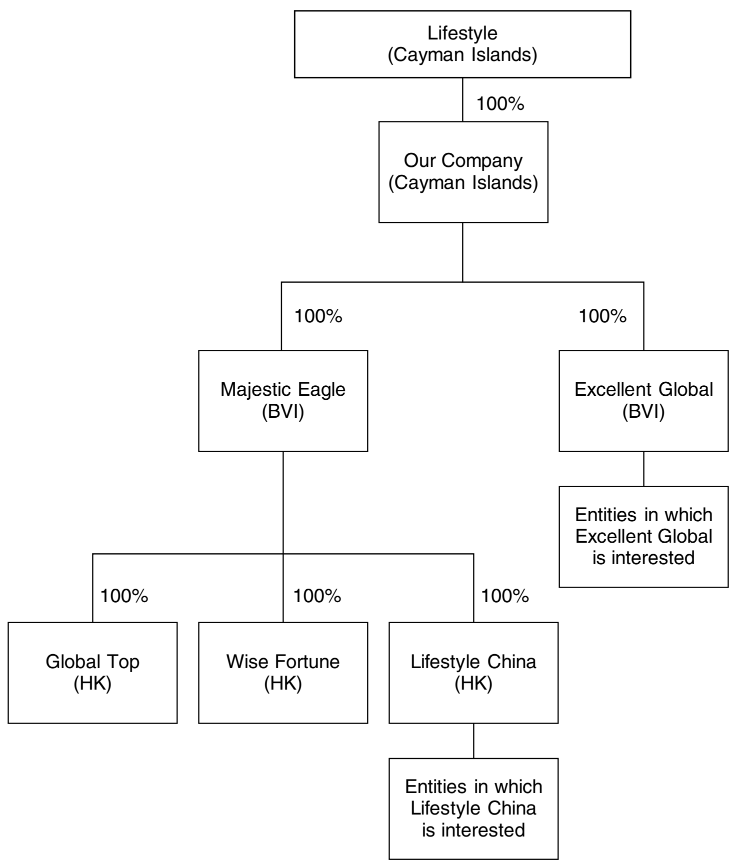
On 23 June 2016, all the liabilities in respect of all sums due or owing from Lifestyle China to Lifestyle (the "**Lifestyle China Loan**") was novated to our Company such that the Lifestyle China Loan became owed by our Company instead of Lifestyle China to Lifestyle. In consideration of such novation of loan, Lifestyle China was deemed to be indebted to our Company an amount equivalent to the Lifestyle China Loan.

**9. Issue of new Shares to Lifestyle by way of capitalisation of all the debts assumed by our Company**

Prior to the Listing, a total of 1,602,586,440 new Shares, all credited as fully paid, (which shall be sufficient to carry out the Distribution) will be allotted and issued to Lifestyle by way of capitalisation of all amount (being approximately, HK$8,086.3 million) due from our Company to Lifestyle (such amount being inclusive of the indebtedness assumed by our Company under step 8 above).

## CORPORATE STRUCTURE AFTER THE REORGANISATION BUT BEFORE THE DISTRIBUTION

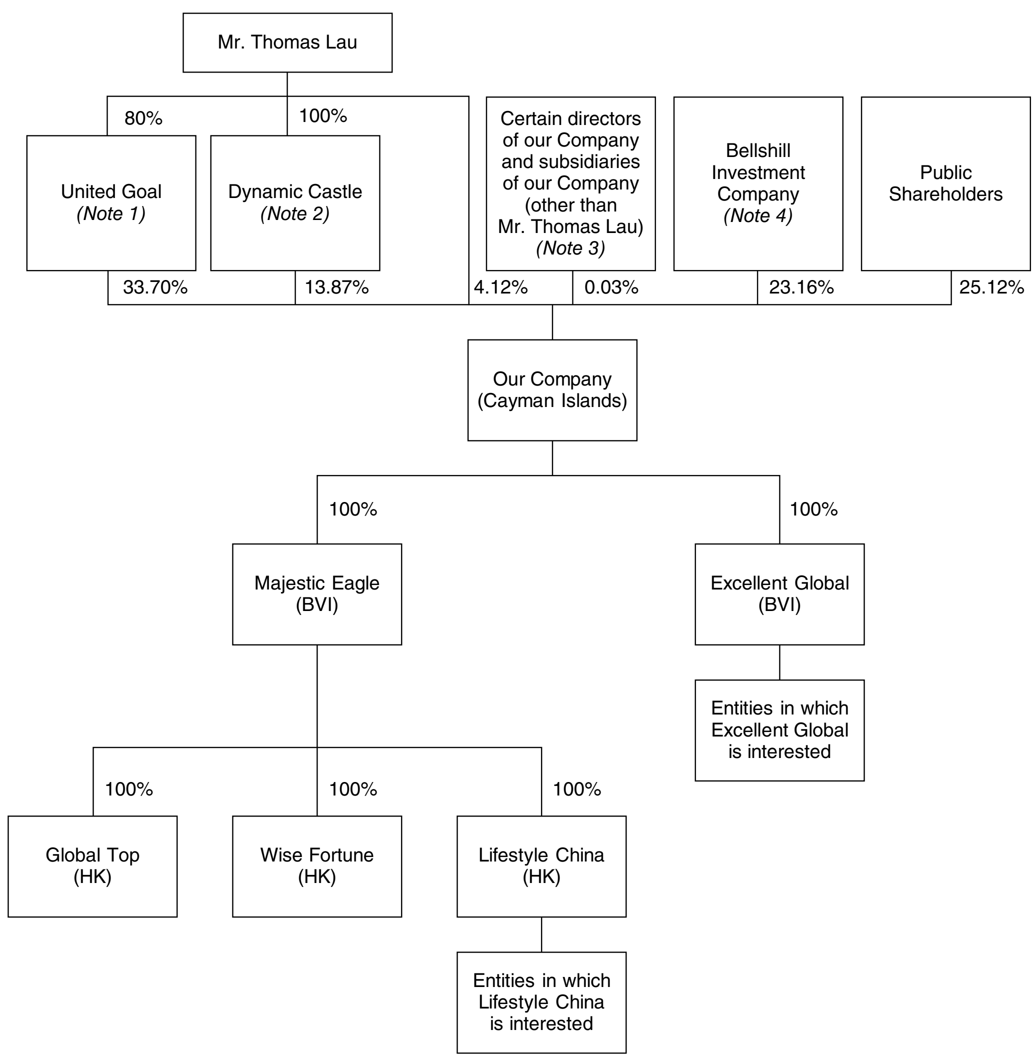
Set out below is the shareholding structure of our Group immediately after completion of the Reorganisation but before the Distribution.



## CORPORATE STRUCTURE AFTER THE REORGANISATION AND THE DISTRIBUTION

United Goal, Dynamic Castle, Mr. Thomas Lau, Bellshill Investment Company, Ms. Chan Chor Ling, Amy and certain directors of subsidiaries of our Company will receive 540,000,000 Shares, 222,350,332 Shares, 66,051,460 Shares, 371,122,958 Shares, 297,000 Shares and 205,000 Shares respectively under the Distribution based on their shareholdings in Lifestyle on the Latest Practicable Date and assuming that they will remain unchanged on the Distribution Record Date, representing approximately 33.70%, 13.87%, 4.12%, 23.16%, 0.02% and 0.01% of the issued share capital of our Company following completion of the Reorganisation and the Distribution, respectively. United Goal, Dynamic Castle and Bellshill Investment Company being our substantial shareholders, Mr. Thomas Lau and Ms. Chan Chor Ling, Amy being our Directors, and the directors of subsidiaries of our Company, are all core connected persons of our Company and are not considered as public under the Listing Rules. Excluding their shareholding interests in our Company as a result of the Distribution, it is expected that our Company will have a public float of approximately 25.12% of Shares upon Listing which complies with the public float requirement under Rule 8.08 of the Listing Rules.

Set out below is the shareholding structure of our Group after the Reorganisation and the Distribution:



*Notes:*

1. United Goal is ultimately owned as to 80% by Mr. Thomas Lau through Asia Prime and as to 20% by a family trust of which Mr. Lau Luen Hung, Joseph and certain of his family members are eligible beneficiaries.

2. Dynamic Castle is wholly-owned by Mr. Thomas Lau.

3. Ms. Chan Chor Ling, Amy and certain directors of subsidiaries of our Company will receive 297,000 Shares and 205,000 Shares under the Distribution in their capacities as shareholders of Lifestyle based on their shareholdings in Lifestyle on the Latest Practicable Date and assuming that their shareholdings will remain unchanged on the Distribution Record Date. Their aggregate shareholdings in our Company arising from the Distribution are expected to represent a negligible percentage of 0.03% of the issued share capital of our Company following completion of the Reorganisation and the Distribution. As they are core connected persons of our Company, they are not considered as public under the Listing Rules.

4. Bellshill Investment Company is a wholly-owned subsidiary of Qatar Holding LLC, which in turn is wholly-owned by Qatar Investment Authority.

## THE DISTRIBUTION

As part of the Spin-off, the board of directors of Lifestyle conditionally approved the Distribution on 28 June 2016, under which each Lifestyle Qualifying Shareholder or Lifestyle Excluded Shareholder will be entitled to one Share or equivalent cash payment (after deducting expenses) (as appropriate) for every Lifestyle Share held as at the close of business on the Distribution Record Date. Fractional entitlements to our Shares under the Distribution will be retained by Lifestyle for sale in the market and Lifestyle will keep the net proceeds of sale, after deduction of related expenses therefrom, for the benefit of Lifestyle. As advised by the Cayman Islands legal advisers to our Company, such arrangement will not contravene Cayman Islands law. As the Lifestyle Qualifying Shareholders will be entitled to one Share for every one Lifestyle Share held as at the close of business on the Distribution Record Date in proportion to their respective shareholdings in Lifestyle under the Distribution, no agent will be appointed to provide a matching service to match the sale and purchase of odd lots of our Shares. Our Shareholders who wish to sell their odd lots of our Shares received under the Distribution should contact their own broker.

On the Distribution Record Date, our Company will capitalise all amount (being approximately, HK$8,086.3 million) due from our Company to Lifestyle (such amount being inclusive of the indebtedness assumed by our Company pursuant to the novation of inter-group loans owing by members of our Group to the Remaining Lifestyle Group) by allotting and issuing a total of 1,602,586,440 Shares (which is calculated based on the issued share capital of Lifestyle as at the Latest Practicable Date and assuming it will remain unchanged on the Distribution Record Date), credited as fully paid, to Lifestyle for the purpose of effecting the Distribution. Subsequent to the Capitalisation Issue and based on the issued share capital of Lifestyle as at the Latest Practicable Date and assuming that it will remain unchanged on the Distribution Record Date, 1,602,586,500 Shares will be held by Lifestyle which will be the subject of the Distribution as described above.

If there are any Lifestyle Overseas Shareholders whose addresses on the register of members of Lifestyle at the close of business on the Distribution Record Date are in a jurisdiction outside of Hong Kong, the directors of Lifestyle will make enquiries as to whether the transfer of our Shares to such Lifestyle Overseas Shareholders may contravene or require the satisfaction of any requirements of the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange. If, after making such enquiry, the directors of Lifestyle are of the opinion that it would be unlawful or impracticable, on account of either the restrictions or requirements (including, for example, any registration, qualification or the compliance or satisfaction of other requirements that would be required for any such transfer of Shares) under the laws, regulations or directions of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place or of the costs (whether in absolute terms or relative to the amount of Shares to be transferred) involved or time required, to transfer our Shares to such Lifestyle Overseas Shareholders in the absence of a registration statement or special formalities, such Lifestyle Excluded Shareholders (if any) will be entitled to the Distribution but will not receive our Shares. Instead, they will receive a cash amount which equals to the net proceeds of the sale by Lifestyle (if such proceeds shall exceed HK$100.00) on their behalf of our Shares to which they would otherwise be entitled pursuant to the Distribution after dealings in our Shares commence on the Stock Exchange at the prevailing market price. The net proceeds of such sale will be paid to the relevant Lifestyle Excluded Shareholders in HK dollars. Cheques for such net proceeds are expected to be despatched within approximately one month following the commencement of dealings in our Shares on the Main Board. According to the register of members of Lifestyle as at the Latest Practicable Date, there were 3 Lifestyle Overseas Shareholders of Lifestyle with their addresses in BVI and the Cayman Islands, respectively.

Our Company has applied for the listing of, and permission to deal in, our Shares on the Main Board. The Distribution is subject to the Spin-off Condition. If such condition is not satisfied, the Distribution will not be made and the Spin-off will not take place.

Our Company expects to despatch share certificates to Lifestyle Qualifying Shareholders who are entitled to our Shares under the Distribution on 14 July 2016. Such share certificates will only become valid if the Distribution becomes unconditional. The Lifestyle Qualifying Shareholders who hold Lifestyle Shares through CCASS Clearing Participants or CCASS Custodian Participants will receive Shares through their respective brokers or custodians who are CCASS Clearing Participants or CCASS Custodian Participants.

**Lifestyle PRC Stock Connect Investors**

According to the "CCASS Shareholding Search" available on the Stock Exchange's website (www.hkexnews.hk), as at Latest Practicable Date, ChinaClear held 586,500 Lifestyle Shares, representing approximately 0.03% of the total issued Lifestyle Shares. ChinaClear is a CCASS Participant with the HKSCC Nominees Limited.

The board of directors of Lifestyle and our Board have made the relevant enquiries and have been advised by our PRC Legal Advisers that the Lifestyle PRC Stock Connect Investors may receive our Shares pursuant to the Distribution through ChinaClear. In addition, according to our PRC Legal Advisers and the Frequently Asked Questions Series 29 regarding Shanghai-Hong Kong Stock Connect, the Lifestyle PRC Stock Connect Investors (or the relevant ChinaClear participants, as the case may be) whose stock accounts in ChinaClear are credited with our Shares may only sell them on the Stock Exchange under Shanghai-Hong Kong Stock Connect but may not purchase our Shares as our Shares are not eligible securities under the Shanghai-Hong Kong Stock Connect.

Lifestyle PRC Stock Connect Investors should seek advice from their intermediary (including broker, custodian, nominee or ChinaClear participant) and/or other professional advisers for details of the logistical arrangements as required by ChinaClear.

**THE SPIN-OFF**

On 22 April 2016, Lifestyle announced that on 15 February 2016 it had submitted a spin-off proposal to the Stock Exchange pursuant to Practice Note 15 of the Listing Rules ("**PN15**") in relation to the Spin-off and that the Stock Exchange had confirmed that Lifestyle may proceed with the Spin-off. The applicable percentage ratios for the Spin-off are expected to be over 25%. However, as the Spin-off will be effected solely by way of the Distribution in specie, the Spin-off will not constitute a notifiable transaction for the purpose of Chapter 14 of the Listing Rules.

The Lifestyle Group mainly operates its full-fledged "lifestyle" department stores, with middle to upper-end market positioning through its two retail brand names, "SOGO" in Hong Kong and "Jiuguang" in the PRC. It is a strategy for the Lifestyle Group to segregate the Hong Kong and PRC operations to allow the respective management teams to focus on its own geographic segment and to cater for different investors' appetite for each of the Hong Kong and PRC market. After the Spin-off, the Remaining Lifestyle Group will continue to be principally engaged in the operation of department stores in Hong Kong, and our Group will be principally engaged in the operation of department stores and supermarket business in the PRC and restaurant business.

Lifestyle considers that the Spin-off is in the interests of Lifestyle and our Company and their respective shareholders as a whole because:

(a) the Remaining Lifestyle Group and our Group operate in different geographic segments and growth paths. By delineating clearly between the operation of the two groups, the Spin-off will provide separate platforms for the businesses of the two groups;

(b) the Spin-off will create two groups of companies which are believed to have different risks profile and will offer investors with an opportunity to participate in the future development of both the Remaining Lifestyle Group as well as our Group and the flexibility to invest in both or either of the groups;

(c) the Spin-off will increase the operational and financial transparency of our Group and provide investors, the market and rating agencies with greater clarity on the businesses and financial status of our Group;

(d) the Spin-off will enable the management of our Group and the Remaining Lifestyle Group to focus on their respective businesses which have different requirements and growth paths, thereby enhancing the decision-making process and their responsiveness to market changes; and

(e) the Spin-off will enable our Company and Lifestyle to establish their own profiles as separate listed entities with the abilities to access the debt and equity capital markets to fund their respective operations, future developments and investment opportunities.

In accordance with the requirements of PN15, Lifestyle will give due regard to the interests of its shareholders by providing qualifying shareholders with an assured entitlement to our Shares by way of the Distribution if the Spin-off proceeds. Details of the Distribution are set out above.

## OVERVIEW

We are an established operator of department stores based in the PRC. We operate Shanghai Jiuguang, Suzhou Jiuguang and Dalian Jiuguang. The department stores we operate are "lifestyle" department stores, with middle to upper-end market positioning and through our Jiuguang Brand in the PRC. According to the CIC Report, Shanghai Jiuguang ranked third in terms of retail sales value in 2015 in Shanghai's department store market with approximately 2.4% market share. Suzhou Jiuguang ranked fourth in terms of retail sales value in 2015 in Suzhou's department store market with approximately 2.7% market share. Our department stores are characterised by the "one-stop shopping", "shops-in-shop", and "customer oriented" concepts, which we aim to offer quality goods and services, customer convenience and a comfortable shopping environment. In addition, we are in the process of developing our new department store also under the Jiuguang Brand to be housed in a complex to be developed by us on Daning Road, Jing'an District, Shanghai in the PRC which is targeted to be completed in December 2018 (i.e. our Daning Project).

Our department stores offer a wide variety of goods ranging from daily necessities to luxury products as well as personal care services, such as hair and beauty salons, for meeting the needs of our customers. Depending on the location of the department stores, the merchandise are sold by means of concessionaire sales as well as direct sales and can be broadly categorised into apparels and fashion, cosmetics and accessories, household, toys and others, and food and confectionery. The merchandise mix and services provided by our department stores are reviewed and adjusted from time to time to enhance the shopping experience it provides and to attract new customers and retain existing customers with the goal of increasing turnover to our Group. We also lease space in our department stores to third party service providers, such as restaurants, for rental income. Furthermore, we receive service income from concessionaires and suppliers for displaying their products and billboards in our department stores.

Other than department stores, we also operate supermarkets in the PRC, two of which are located inside Shanghai Jiuguang and Suzhou Jiuguang. Also, our Group's first standalone supermarket in Shanghai was launched in July 2013 inside the "L'Avenue Shanghai", a high-end luxury shopping mall complex located in the Hongqiao Economic Development Zone of Shanghai. All of these supermarkets are operated under the Freshmart Brand. Our standalone supermarket represents our Group's effort to broaden the presence of our Freshmart Brand, as our Directors believe that the high-quality food and confectionary products offered at our supermarkets have been enjoying widespread popularity among customers at Shanghai Jiuguang.

We also operate two Wa San Mai in the PRC and one in Hong Kong. Wa San Mai are Japanese teppanyaki style restaurants, featuring Japanese style teppanyaki, hotpot, and sushi with a la carte dining areas as well as private rooms. We have also invested in an associate, which operates Royal China, with cuisine including the middle to upper-end Cantonese food and Longji, a Hong Kong style "cha chaan teng" (茶餐廳) in the PRC.

In order to diversify into and gain experience on operating in the department store market in Hebei Province in the PRC where we have no prior exposure, in 2008 and 2010, we made equity investment, in a leading retailer group, the Beiren Group, based in Shijiazhuang, Hebei Province in the PRC, resulting in our Investment in Beiren Group as at the Latest Practicable Date.

The Beiren Group operates department stores, supermarkets and electrical appliance stores, most of which are located in Shijiazhuang, Hebei Province in the PRC. Share of profits for the Beiren Group amounted to approximately HK$337.9 million, HK$371.8 million and HK$370.8 million, representing a substantial portion of our profit for the year of approximately 57.2%, 65.7% and 66.5% for each of the three years ended 31 December 2015, respectively. However, we do not have control over the business of Beiren Group. Please refer to the paragraph headed "Non-HKFRS measures" in the section headed "Financial information" in this listing document regarding contribution of the Beiren Group to our Group.

We also hold 65% and 50% equity interests in Shanghai Ongoing and Shanghai Joinbuy, respectively. As at the Latest Practicable Date, Shanghai Ongoing is principally engaged in the operation of department store in Shanghai, the PRC, being Shanghai Jiuguang, while Shanghai Joinbuy holds a property in Shanghai, the PRC, where Shanghai Jiuguang situated.

For the three years ended 31 December 2015, our Group recorded approximately HK$1,272.9 million, HK$1,355.8 million, and HK$1,381.3 million in turnover, and approximately HK$365.1 million, HK$324.8 million, and HK$306.0 million in net profit attributable to owners of our Company, respectively.

## OUR COMPETITIVE STRENGTHS

We believe that the following represents our competitive strengths:

### Strong competitive position backed by solid operating strategy

We focus on entering the department store market in selected cities, which we believe has the potential, to operate large-scale department stores, and optimising its product mix and maintaining strong relationships with brand partners.

We believe that operating large-scale department stores provides us with a major competitive advantage as customers in the PRC often treat shopping excursions as entertainment or a family activity.

We also focus on optimising product mix in our department stores. Our "lifestyle" department stores are primarily focused on middle to upper-end products ranging from daily necessity items to luxury products. In addition to the wide range of products, our department stores offer in-store auxiliary business services such as restaurants and beauty salons to attract high levels of traffic and a broad range of customers. As a "one-stop shopping destination", we believe each of our department stores is able to maximise the amount of time that customers remain in the department store and thereby is able to capture a greater amount of purchases by customers.

Our department stores also have strong relationships with our brand partners, many of which operate their own concessionaire counters within our department stores. We work with a wide range of brand partners which cater for a large group of customers and goods offered by them including cosmetics, beauty and health products, men's and women's fashion and household and electronics products. Our retail partners include major international brands. We also work with domestic brands to appeal to local customers' tastes at each department store. In addition, we are able to minimise our risk profile and amount of working capital by relying primarily on concessionaire sales rather than direct sales.

**Our Jiuguang Brand in the PRC department store market**

Ranked third and fourth in terms of retail sales value in the department store market in Shanghai and Suzhou in 2015, respectively, according to the CIC Report, we believe our Jiuguang Brand has established its own brand name in the Yangtze River Delta region in the PRC over the years, and enabled our Group and management team to develop concrete retail brand building and management expertise, which is leveraged on to further expand our business into other cities in the PRC. According to the CIC Report, a good brand image is essential to department stores in two aspects. Firstly, a good brand image of a department store is attractive to retailers, ultimately giving more bargaining power to the department store. Secondly, a good brand image is also attractive to customers, thus improving the customer footfall of the department store as well. Thus, they want to shop in a department store that has a reliable reputation and brand. We believe our Jiuguang Brand will provide such assurance and confidence to our customers to continue to consistently shop at our department stores.

**High percentage of property ownership increases operating leverage and flexibility**

Our strategy is to operate large-scale department stores that provide a one-stop shopping experience to our customers and to establish each of our department stores as a long-term landmark destination in the cities in which we are located. As such, we are focused on the self-owned property business model as key to achieving our strategy and maximising our operational flexibility. As at the Latest Practicable Date, we owned two of our three department stores in the PRC and held a 50% property interest in Shanghai Jiuguang through a joint venture under Shanghai Joinbuy. Our self-owned property business model emphasises our commitment in the cities to which we expand whereby we believe would insulate us from the volatile rental market and the risk of forced relocations. It also allows us to have maximum flexibility when planning construction, department store layouts and size with the goal of becoming a landmark shopping centre for shoppers.

**Experienced management team and proven management structure**

Our Group has an experienced management team that has led us through economic downturn periods such as the global financial crisis while continuing to increase turnover and profit. At the corporate level, our Group is led by an experienced management team in the department store industry. Together with Mr. Thomas Lau, the Chairman, the Chief Executive Officer and an executive Director of our Company, this team formulates and implements the strategy, vision, and guiding principles of our Group. For further details, please refer to the section headed "Directors, senior management and staff" of this listing document.

**Our presence and market share position in the PRC**

We have established our presence and market share position in the PRC. Shanghai Jiuguang, Suzhou Jiuguang and Dalian Jiuguang commenced its respective operations in 2004, 2009 and 2009. According to the CIC Report, Shanghai Jiuguang ranked third in terms of retail sales value in 2015 in Shanghai's department store market with approximately 2.4% market share. Suzhou Jiuguang ranked fourth in terms of retail sales value in 2015 in Suzhou's department store market with approximately 2.7% market share. The PRC represents a significant growth and opportunity for our Group. We have and will continue to identify major urban centres to support our growth strategy, particularly in light of the large market size and rising consumption power of consumers in the PRC. Our department stores in the PRC are currently located in Shanghai, Suzhou and Dalian with an above-average disposable income per capita within the PRC. In addition, we are in the process of developing our Daning Project which is targeted to be completed in December 2018. While we currently do not have other concrete expansion projects, as referred to above, we would leverage on our Jiuguang Brand's established position in the Yangtze River Delta region and our location in major urban centres.

## OUR STRATEGIES

We aim to strengthen our department store market leadership position as an operator of Jiuguang Brand and increase our competitiveness in the PRC. Our strategy consists of the following:

**Continue to offer a one-stop shopping experience to customers**

We seek to continue to offer a one-stop shopping experience at each of our department stores. We have invested in large floor spaces that offer a wide range of products as well as in-store auxiliary services to allow our departments stores to attract a large shopping audience and to prolong the amount of time customers remain in our department stores. We will continue to review the mix of products offered at our department stores and make adjustments according to consumer preferences from time to time.

Although our core business involves counter sales, we recognise that in order to attract customers and entice them to spend more time in our department stores, we need to offer them pleasurable shopping experiences that meet their changing needs. We believe that the aesthetic condition of the department store is important, and plan to continue to renovate and expand certain of our existing department stores in order to make them more appealing to affluent customers and enhance our brand reputation in the PRC, taking into account local market conditions. We seek to expand our department store operations to include ancillary facilities such as coffee shops, VIP function rooms and car parking facilities, to meet our customers' needs according to local market conditions. In addition, we will continue to undertake improvement works on store layout and decoration of our department stores. We believe that these steps will make our department stores more attractive and encourage customers to spend more time in our department stores.

**Continue to prudently diversify and expand in the PRC market**

We will continue to leverage on our operational experience and success from our existing PRC department stores to expand our operations in other parts of the PRC. Expansion in other parts of the PRC will be pursued via the self-owned property business model as well as opportunistic leases in attractive locations as and when we consider appropriate. In pursuing our expansion plan, we will prudently take into account the availability of management resources as well as allow sufficient time for existing projects to ramp up their operations and results. In addition, we are in the process of developing our Daning Project which is targeted to be completed in December 2018.

Similar to our investment in the Beiren Group, we will also explore strategic investment opportunities and other retailing formats that will be able to complement our growth strategy in the PRC.

**Maintain a high quality and appealing merchandise mix**

We position ourselves at the middle to upper-end of the PRC retail market and offer a range of merchandise in our department stores including apparel and fashion, cosmetics and accessories, household, toys and others, and food and confectionary products. In each of the three years ended 31 December 2015, apparel and fashion and cosmetics and accessories together accounted for approximately 64.5%, 70.0% and 70.7% of our sales proceeds (net of tax), respectively. We intend to continue to maintain a portfolio of quality international and domestic branded apparel and fashion and cosmetics and accessories products as we believe these categories of merchandise appeal to our target middle to high-income customers and can provide better growth and profitability opportunities for us.

Merchandise mix may vary from department store to department store due to the different market positioning and operating strategies of our department stores. We adjust our merchandise mix at each department store by monitoring local consumer preferences, consumption patterns, spending power and level of competition in the cities that we operate our department stores. Market research and review of sales performance are carried out at the local store level and by our management team to identify the more popular products and brands to be offered to our customers.

**Further strengthen our relationship with concessionaires**

We intend to continue to focus on concessionaire sales and continue to strengthen our relationship with our concessionaires such as by organising joint promotional events. For the three years ended 31 December 2015, we received sales proceeds (net of tax) from concessionaire sales of approximately HK$3,256.2 million, HK$3,416.3 million and HK$3,347.5 million, respectively, accounting for approximately 89.2%, 89.0%, and 88.2% respectively, of our sales proceeds (net of tax). Sales proceeds from the concessionaire sales is first collected by us on the concessionaire's behalf and then returned to the concessionaire on a monthly basis after deduction of all relevant expenses and commission. Thus, we do not receive sales proceeds but commission income under the arrangement with our concessionaires. We will continue to target the market leaders in each product category and establish strategic cooperation with them if possible. As we develop our relationship with market leaders, we believe more concessionaires will be willing to cooperate with us, providing us with a wider range of merchandise and brands and better bargaining power in our negotiation with potential concessionaires.

**Continue to expand our VIP Customer base**

We intend to continue to expand our VIP Customer base as we believe that the growth of our VIP Customer base will prove instrumental to our long term success. For each of the three years ended 31 December 2015, sales proceeds (net of tax) derived from our VIP Customers accounted for approximately 26.5%, 30.5% and 31.1%, respectively, of the sales proceeds (net of tax) of all our department stores.

VIP Customers with our J's Club card enjoy a 5% discount at certain counters in our department stores and VIP Customers with our supermarket membership card enjoy a 5% discount on certain days in our supermarkets, and they will be given accumulated reward points for their purchases to exchange for different gift rewards. We have also introduced co-branded credit cards at our department stores to enhance customer loyalty. VIP Customers with co-branded credit cards also enjoy discounts ranging from 5% to 10% for purchases at certain counters in our department stores, and they may also enjoy other promotional benefits from time to time as agreed between the issuing bank and us. We believe that those customers who sign up for our J's Club cards or supermarket membership card, or co-branded credit cards could be frequent shoppers. Hence, marketing and promotional materials as well as provision of extra purchases incentives, participation in special events are from time to time communicated to these VIP Customers. We believe that our program of VIP Customers operated through our J's Club cards or supermarket membership card, and co-branded credit cards at our department stores is successful in promoting customer loyalty and stimulating purchases at our department stores and supermarkets, and that the launch of other possible co-branded credit cards in the future will help further expand our VIP Customer base.

**Maintain corporate and localised operating strategies**

We use a management structure that allows for significant discretion at the corporate and local levels to better determine and address varying local market conditions across the PRC.

Each of our department stores adopts localised operating strategies tailored to accommodate local consumer preferences, spending power, level of competition and market position of our department stores. These localised strategies cover areas such as brand and products mix, marketing and promotion channels and training to our staff. We believe the adoption of localised operating strategies enables us to better position our department stores and increase their overall competitiveness. For example, Suzhou

Jiuguang has adopted a strategy to tailor our products for family-oriented customers, while Shanghai Jiuguang has adopted a strategy to tailor our products for business executives and expatriates customers.

Furthermore, we will also consider to develop the O2O business platform for our department store operations in the future as and when we consider appropriate taking into consideration factors such as local market trend and general PRC economy.

## BUSINESS ACTIVITIES

### Department stores

Our business is mainly focused on the operation of department stores in the PRC. We position our department stores to target customers of middle to upper income segment in cities with high and rapid growing per capita disposable income in the PRC. We therefore offer a collection of local and international branded merchandise at our department stores characterised by the "one-stop shopping", "shops-in-shop", and "customer oriented" concepts, with the aim to providing our customers with a pleasant shopping experience.

With a strong emphasis on our market position, we have set up our department stores to cater for the needs of our target customers. All of our department stores adopt a consistent interior design with the aim to distinguish our Jiuguang Brand from our competitors.

Our department stores are generally divided into sections based on the categories of merchandise. We offer an extensive collection of merchandise in our department stores, ranging from luxuries such as watches and jewellery to daily necessities such as electrical appliances, groceries, apparel, cosmetics, gourmet, sport wear, beddings, children's products and household products. However, each department store may also be different in merchandise mix depending on the local market.

Our department stores are designed and managed to create an attractive department store environment to maximise operating efficiencies and to make shopping convenient and pleasurable. Visual displays can be easily changed for seasonal and holiday promotions, and sales area can be flexibly reallocated. To make shopping at our department stores more convenient, the department store layout is easy to understand, and clear in-store signs help customers identify and locate branded shops. We believe that our customers are able to easily select desired styles, colours and sizes, as merchandise offered at our department stores are plentiful, well organised and attractively displayed.

In addition, we also aim to provide high standard of customer services so as to allow our customers to have an enjoyable and pleasurable shopping experience at our department stores. Our Group adopts a "customer oriented" approach in respect of the customer services provided at our department stores where our sales staff are available on the sales floors to assist our customers; and our staff will greet and extend gratitude to customers at the entrance of the department store at the time of store opening and closing each day.

We operate three department stores, namely Shanghai Jiuguang, Suzhou Jiuguang and Dalian Jiuguang.

*Shanghai Jiuguang*

Opened in September 2004, Shanghai Jiuguang is our first department store and is the biggest contributor to our Group's department store operations in terms of turnover and profit. It is located at Shanghai Joinbuy CityPlaza at 1618 Nanjing West Road, Jing'an, Shanghai, the PRC. We own 65% of Shanghai Jiuguang through Shanghai Ongoing. The property which Shanghai Jiuguang operates in is leased from Shanghai Joinbuy, which we have 50% interest.

For further details regarding the lease with Shanghai Joinbuy, please refer to the section headed "Continuing connected transactions" in this listing document.

Shanghai Jiuguang has ten floors with a gross floor area of approximately 92,000 sq.m.. Set out below is the description of the floor layout:

| **Level** | **Category** |
|---|---|
| 9 | Restaurants |
| 8 | Restaurants |
| 7 | Electronics and appliances, household items, porcelain, bedding and outlet hall |
| 6 | Children's fashion, shoes, toys and baby products |
| 5 | Men's fashion, shoes, golf equipment and lounge for VIP Customers with J's Club card |
| 4 | Young fashion, jeans, shoes, handbags and hair salon |
| 3 | Ladies fashion, designer clothing, under garments and beauty salon |
| 2 | International fashion, shoes, handbags, jewellery and restaurant |
| 1 | Brand name products, cosmetics, perfume, jewellery and hair salon |
| B1 | Supermarket, food court and car park |

Shanghai Jiuguang has adopted a strategy to tailor our products for business executives and expatriates customers. It primarily focuses on middle to upper-end products ranging from daily necessity items to luxury products with a portfolio of international and domestic brands.

*Suzhou Jiuguang*

Commenced operation in January 2009, Suzhou Jiuguang is 100% owned by us and the property in which Suzhou Jiuguang operates is our wholly-owned property. It is located at 268 Wangdun Road, Suzhou Industrial Park, Suzhou, Jiangsu, the PRC. Suzhou Jiuguang turned profitable since 2013 and has remained a stable source of turnover and profit of our Group.

Suzhou Jiuguang has six floors with a gross floor area of approximately 176,000 sq.m.. Set out below is the description of the floor layout:

| **Level** | **Category** |
|---|---|
| 4 | Restaurants, tutorial centre and beauty salon |
| 3 | Young fashion, jeans, shoes, sports and outdoor products and tutorial centre |
| 2 | Ladies fashion, handbags, accessories, undergarments, men's clothing and accessories, children and baby products, toys, household items, gifts, bedding and small appliances |
| 1 | Brand name products, cosmetics, perfume, jewellery, ladies shoes and lounge for VIP Customers with J's Club card |
| B1 | Supermarket and food court |
| B2 | Car park |

Suzhou Jiuguang has adopted a strategy to tailor our product for family-oriented customers. Like Shanghai Jiuguang, it also focuses on middle to upper-end products ranging from daily necessity items to luxury products with a portfolio of international and domestic brands.

*Dalian Jiuguang*

Commenced operation in May 2009, Dalian Jiuguang is 100% owned by us and the property which Dalian Jiuguang operates in is our wholly-owned property. It is located at 11 Youhao Street, Zhongshan, Dalian, Liaoning Province, the PRC. Dalian Jiuguang was not profitable since it commenced operation in 2009.

Dalian Jiuguang has 11 floors with a gross floor area of approximately 35,000 sq.m.. Set out below is the description of the floor layout:

| **Level** | **Category** |
|---|---|
| 9 | Restaurants |
| 8 | Restaurants |
| 7 | Coffee shop, art gallery and lounge for VIP Customers with J's Club card |
| 6 | Household items |
| 5 | Men's fashion |
| 4 | Young fashion, accessories and hair salon |
| 3 | Ladies fashion and handbags |
| 2 | International fashion |
| 1 | Brand name products, jewellery and ladies shoes |
| B1 | Supermarket and food court |
| B2 | Car park |

Dalian Jiuguang has adopted a strategy to tailor our product for local middle-end customers. Dalian Jiuguang mainly focuses on middle-end daily necessity products with a portfolio of international and domestic brands.

According to the CIC Report, the department store market in Dalian is dominated by Dalian Dashang Group Co., Ltd. with a market share of more than 80% in 2015. Our Directors believe that with most of the market share in the Dalian department store market being dominated by limited players, it could be relatively more difficult for other players to expand into the market to capture meaningful market share. In addition, when compared with other competitors in Dalian, Dalian Jiuguang is of smaller floor size. Our Directors believe that the smaller floor size limits the variety of Dalian Jiuguang's product mix; and they also believe the smaller floor size may be less attractive to international brands to sell their merchandise at Dalian Jiuguang which, in turn, could affect customer traffic and purchases at Dalian Jiuguang. During the Track Record Period, Dalian Jiuguang recorded declining turnover and gross profit due to weakening economy and market competition. As in terms of turnover and gross profit, Dalian Jiuguang only accounted for an insignificant portion of our business as a whole during the Track Record Period, we plan to continue the operation of Dalian Jiuguang.

Set out below are the number of visitors, average daily number of visitors, average sales per ticket, and stay and buy ratio of our department stores:

| | For the year ended 31 December 2013 | | | | For the year ended 31 December 2014 | | | | For the year ended 31 December 2015 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of visitors *(Note 1)* | Average daily number of visitors *(Note 1)* | Average sales per ticket *(RMB)* | Stay and buy ratio *(%)* *(Note 2)* | Number of visitors *(Note 1)* | Average daily number of visitors *(Note 1)* | Average sales per ticket *(RMB)* | Stay and buy ratio *(%)* *(Note 2)* | Number of visitors *(Note 1)* | Average daily number of visitors *(Note 1)* | Average sales per ticket *(RMB)* | Stay and buy ratio *(%)* *(Note 2)* |
| **Department store** | | | | | | | | | | | | |
| Shanghai Jiuguang | 18,797,500 | 51,500 | 346 | 39 | 18,505,500 | 50,700 | 360 | 38 | 16,790,000 | 46,000 | 369 | 43 |
| Suzhou Jiuguang | 7,263,500 | 19,900 | 336 | 44 | 7,847,500 | 21,500 | 360 | 38 | 8,176,000 | 22,400 | 360 | 37 |
| Dalian Jiuguang | 1,825,000 | 5,000 | 251 | 36 | 1,752,000 | 4,800 | 238 | 35 | 2,080,500 | 5,700 | 248 | 24 |

*Notes:*

(1) The average daily number of visitors was calculated by dividing the total number of visitors entered the department store (being captured by an electronic sensor) for the year by the number of days in the year.

(2) Stay and buy ratio is calculated by dividing the number of invoices issued by the number of visitors on a particular day and multiplied by 100%.

During the Track Record Period, we have operated four department stores, being Shanghai Jiuguang, Suzhou Jiuguang, Dalian Jiuguang and Shenyang Jiuguang (which was closed in December 2015). The following tables set out the particulars of these department stores:

| | Location | Attributable interests | Year commenced operations | Property interest owned/leased | Year ended 31 December | Financial Information<br>Sales proceeds (net of tax)<br>*HK$'000* | Turnover<br>*HK$'000* | Gross profit<br>*HK$'000* |
|---|---|---|---|---|---|---|---|---|
| **Shanghai Jiuguang** | 1618 Nanjing West Road, Jing'an, Shanghai, the PRC | 65% | September 2004 | Leased from Shanghai Joinbuy, which we have 50% interest | 2013 | 2,449,460 | 848,102 | 623,162 |
| | | | | | 2014 | 2,424,195 | 860,049 | 634,857 |
| | | | | | 2015 | 2,456,978 | 899,612 | 647,286 |
| **Suzhou Jiuguang** | 268 Wangdun Road, Suzhou Industrial Park, Suzhou, Jiangsu, the PRC | 100% | January 2009 | Owned | 2013 | 887,640 | 254,076 | 198,009 |
| | | | | | 2014 | 973,667 | 279,247 | 226,104 |
| | | | | | 2015 | 961,816 | 280,770 | 228,380 |
| **Dalian Jiuguang** *(Note)* | 11 Youhao Street, Zhongshan, Dalian, Liaoning Province, the PRC | 100% | May 2009 | Owned | 2013 | 148,321 | 36,520 | 36,319 |
| | | | | | 2014 | 124,910 | 31,991 | 31,822 |
| | | | | | 2015 | 93,082 | 23,257 | 23,172 |
| **Shenyang Jiuguang** | No. 68 Zhongjie Road, Shenhe District, Shenyang, Liaoning Province, the PRC | 100% | October 2013 | Owned | 2013 | 18,508 | 5,479 | 3,638 |
| | | | | | 2014 | 113,019 | 27,223 | 17,064 |
| | | | | | 2015 | 86,769 | 27,679 | 16,133 |

*Note:* During the Track Record Period, almost all of the turnover of Dalian Jiuguang was generated from concessionaire sales. As mentioned in the paragraph headed "Concessionaire sales" below, the cost of holding inventories, as well as the selling costs, are borne by and transferred to the concessionaires, Dalian Jiuguang recorded a relatively high gross profit margin when compared with our other department stores which have direct sales as well.

The following table sets out the turnover and gross profit of our direct sales and concessionaire sales in each of our department stores:

| | | **Turnover** | | **Gross profit** | |
|---|---|---|---|---|---|
| | **Year ended 31 December** | **Direct sales proceeds (net of tax)**<br>*HK$'000* | **Income from concessionaire sales** *(Note)*<br>*HK$'000* | **Direct sales**<br>*HK$'000* | **Income from concessionaire sales** *(Note)*<br>*HK$'000* |
| Shanghai Jiuguang | 2013 | 204,432 | 547,543 | 55,260 | 547,543 |
| | 2014 | 211,741 | 552,327 | 53,137 | 552,327 |
| | 2015 | 241,103 | 556,215 | 54,219 | 556,215 |
| Suzhou Jiuguang | 2013 | 72,519 | 146,801 | 16,452 | 146,801 |
| | 2014 | 69,997 | 173,413 | 16,853 | 173,413 |
| | 2015 | 69,309 | 173,429 | 16,919 | 173,429 |
| Dalian Jiuguang | 2013 | 255 | 28,741 | 54 | 28,741 |
| | 2014 | 226 | 23,235 | 57 | 23,235 |
| | 2015 | 99 | 15,783 | 13 | 15,783 |
| Shenyang Jiuguang | 2013 | 1,594 | 2,818 | 296 | 2,818 |
| | 2014 | 10,273 | 15,487 | 845 | 15,487 |
| | 2015 | 12,178 | 11,347 | 827 | 11,347 |

*Note:* The cost of holding inventories, as well as the selling costs, are borne by and transferred to the concessionaires. Therefore, the gross profit generated from concessionaire sales equals to the income from concessionaire sales.

**Supermarkets**

We operate our supermarkets located inside Shanghai Jiuguang and Suzhou Jiuguang. Also, our Group's first standalone supermarket in Shanghai was launched in July 2013 inside the "L'Avenue Shanghai", a high-end shopping complex located in the Hongqiao Economic Development Zone of Shanghai, featuring various luxury brands and international food chains. Our Group's first standalone supermarket represents our Group's effort to broaden the presence of the Freshmart Brand, as our Directors believe that high-quality food and confectionary products offered at our supermarkets have been enjoying widespread popularity among customers at Shanghai Jiuguang. Despite a decline in turnover for the year ended 31 December 2015 of our standalone supermarket, reflecting the general deteriorating economy in the PRC, we shall look to continue to expand our Freshmart Brand if and when our Directors consider appropriate, taking into consideration various factors including market trend and demand.

**Restaurants**

We operate two Wa San Mai in the PRC and one in Hong Kong.

Particulars of these restaurants and certain financial and operation data are set out below.

| | **Hong Kong** | **Shanghai** | **Suzhou** |
|---|---|---|---|
| Year commenced operation | October 2006 | September 2014 (term of its lease agreement commenced in May 2014) | April 2009 (term of its lease agreement commenced in November 2008) |
| Gross floor area (sq.m.) | 1,075.1 | 620.0 | 616.5 |
| Number of seats | 200 | 100 | 88 |
| Sales in 2015 | HK$67.7 million | HK$13.0 million | HK$13.1 million |
| Total number of customers in 2015 | 115,841 | 23,582 | 24,111 |
| Average spending per customer in 2015 | HK$584 | HK$553 | HK$543 |
| Average daily turnover in 2015 | HK$185,413 | HK$35,746 | HK$35,881 |

Wa San Mai are Japanese teppanyaki style restaurants, featuring Japanese style teppanyaki, hotpot and sushi.

Management of Wa San Mai rests with our chief chef who reports to the respective store manager of the department store to which it attaches. Following the Spin-off, our chief chef at the restaurant in Hong Kong will no longer report to the store manager at the SOGO department store at Causeway Bay but directly to the deputy store manager of Shanghai Jiuguang.

Serving safe, reliable and consistent quality of foods to our customers is our primary objective and top priority and through sourcing food raw materials and ingredients from reliable suppliers will not only enable us to achieve such objective but also enable us to maintain stable cost as well as inventory level.

*Management of suppliers and sources of major food materials/ingredients*

We purchase our major food and supplies from over 50 suppliers for both local produces and raw materials and ingredients sourced from overseas, including Australia, Japan, the United States, Canada and South Africa. On average, we have over two years of business relationship with our major suppliers.

Our team of chefs would conduct reviews of items from each potential supplier before including a supplier into our qualified supplier list. Any decision in relation to the selection or replacement of a key supplier requires approval of our chief chef and to be reported to the respective store manager in-charge of the restaurant. When dealing with suppliers, we consider not only the price but reliability and responsiveness to contingent delivery of food ingredients. With our transparent supplier selection process and close monitoring by senior management, we believe we would be able to effectively prevent our staff from entering into kickback arrangements or bribery schemes with our suppliers.

*Management of purchasing of food ingredients*

In order to enable stable supply and enhance our bargaining power, we would in general select two to three different suppliers for the same raw material/ingredient and choose one to place our order based on its quality and price. In general, our team of chefs would estimate the amount of ingredients needed every two days based on recent consumption and previous experience and place our orders every other day.

Our major food and supplies include (i) seafood; (ii) fresh produce such as vegetables; (iii) meats; (iv) beverages; and (v) groceries items. By establishing long standing relationship with our major suppliers, and using food and supplies from different origins or countries, we believe we would be able to maintain relatively stable food cost. We consider the increases in prices of our major food ingredients during the Track Record Period were reasonable and did not have a material adverse effect on our results of operations and financial condition.

During the Track Record Period, there was no incident of interruption to our restaurant operations as a result of unstable or insufficient supply of food and beverages.

*Food safety, quality control and complaints*

We place great emphasis on maintaining the safety and quality of the food served at our restaurants. All of our suppliers are required to comply with relevant quality standards imposed by the local regulatory authorities with respect to their food ingredients and other supplies. We also conduct regular reviews of the quality and amount of purchases from each supplier. Ingredients delivered to our restaurants would be inspected by our more experienced chefs to ensure food and ingredients are fresh and up to our standard.

In terms of quality control at each stage of food processing, it is supervised by our experienced chefs and restaurant managers and the food is prepared in accordance with proper food processing procedures. Moreover, three experienced restaurant staff, including restaurant manager and senior chef at each restaurant, are responsible to conduct inspection and ensure the quality, safety and hygiene of food and restaurant as part of their daily work.

During the Track Record Period, there was no investigation by any government authorities or incident of food safety issues and we did not receive any material complaints regarding our restaurants. Restaurant managers shall be responsible for handling any restaurant customer complaints.

The period it takes for the restaurant to achieve break-even is subject to a number of factors, among other things, local customer preference and discretionary spending on food, competition and locations.

*Cash management*

Most customers settle their restaurants bills in cash or credit/debit card or other electronic payments means. In order to prevent cash misappropriation or embezzlement by our staff and collusion among employees, measures and control procedures are in place which include enforcing proper segregation of duties and checks and balance by granting appropriate access rights in our point-of-sale system. Table staff takes customer orders in the point-of-sale which are sent directly to the kitchen for food processing and cashiers take proceeds from customers when they settle bills. Moreover, all cash proceeds are submitted at the end of business hours and reconciliation of cash proceeds with the sales records in the point-of-sale system is performed by independent finance staff under the monitoring of surveillance TV.

During the Track Record Period, there was no incident of cash misappropriation or embezzlement.

*Trademarks*

The trademarks used by our restaurants are registered in the PRC and Hong Kong and are owned by our Group. Please refer to the paragraph headed "Intellectual property" in Appendix V to this listing document for more details of the trademarks.

*Pricing policy*

Our Wa San Mai targets the middle to upper-end customers and we believe we are able to achieve a better pricing premium and charge prices which are comparable to other Japanese style restaurants of the same class in their respective location.

Our team of chefs would prepare and make change to the standard menu every one to two years in general. Depending on the seasonally ingredients available, our team of chefs would be able to design special dish menu for the need of our customers from time to time. In setting the prices for our menu items in our restaurants, we take into account of the following key factors:

- cost of raw materials/ingredients;
- scarcity of food ingredients;
- location of the our restaurant and the competition around; and
- spending patterns of targeted customers.

Our restaurant managers will from time to time review prices of the main menu in order to maintain a relatively stable gross margin. Adjustments to our menu prices are principally in response to increases in our costs of sales, which include, amongst other things, our food and beverage costs, other operating costs, market trend and prices set by our competitors.

From time to time, we also have promotional events for our restaurants such as Mother's Day promotion and Valentine's Day promotion. We have also joined culinary websites and use them to market our restaurants and attract new customers to try out our restaurants. Discounts may also be given to our restaurant customers with co-branded credit cards or our Wa San Mai membership card.

*Expansion*

All of our Wa San Mai are attached to our Group's department stores (except that the Hong Kong one is located in the same building as the SOGO department store at Causeway Bay of the Remaining Lifestyle Group). Our first Wa San Mai was started in Hong Kong in October 2006. Subsequently we opened our Wa San Mai in the PRC at Suzhou Jiuguang and Shanghai Jiuguang, which commenced its operations in April 2009 and September 2014 respectively. So far, our Wa San Mai operations are complementary to our department store business.

While we mainly focus on our department store and supermarket operations, our Directors would consider to develop and to expand our restaurant segment if and when appropriate depending on market trends and demand. Further, we do not rule out the possibility of opening stand alone Wa San Mai outside of our department stores in the future.

**Services and rental**

We also provide services to our concessionaires and direct sales suppliers such as providing product display space and billboards in our department stores. Concessionaires and suppliers of direct sales of our department stores pay an annual sponsorship fee to us to cover promotional costs and also pay a separate amount to lease product display space and billboards in our department stores, which are not compulsory but according to the needs of our concessionaires. Such service income has contributed approximately 4.2%, 3.8% and 4.0% to our total turnover, respectively, for each of the three years ended 31 December 2015.

We also lease our department store space to third party service providers such as restaurants for rental income. Rental income was contributed approximately 7.5%, 7.7% and 7.9% to our total turnover in each of the three years ended 31 December 2015, respectively. As at 31 December 2015, approximately 21.4% of Shanghai Jiuguang's area, 22.6% of Suzhou Jiuguang's area, and 18.3% of Dalian Jiuguang's area have been leased to third party service providers. Rental terms may vary across service providers and the rental income can be either fixed or variable according to the total sales proceeds of the service provider. The length of a rental contract ranges from one to five years in general. By leasing our department store space to third party service providers, we believe we are able to enhance customers' shopping experience, attract more department store traffic and increase the amount of time customers spend shopping in our department stores. Our rental income also provides a stable turnover.

## SALES

### Sales proceeds and merchandising

Sales of our Group in our department stores and supermarkets are conducted by way of direct sales and concessionaire sales. Sales proceeds (net of tax) represent the net amount received under direct sales and concessionaire sales (i.e. net of value-added tax). The table below is a summary of the sales proceeds (net of tax) during the Track Record Period:

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | |
| | *HK$'000* | % | *HK$'000* | % | *HK$'000* | % |
| Sales proceeds (net of tax) | | | | | | |
| Direct sales | 392,262 | 10.8 | 421,119 | 11.0 | 446,496 | 11.8 |
| Concessionaire sales | 3,256,183 | 89.2 | 3,416,283 | 89.0 | 3,347,490 | 88.2 |
| Total | 3,648,445 | 100.0 | 3,837,402 | 100.0 | 3,793,986 | 100.0 |

A significant portion of our sales proceeds (net of tax) is derived from concessionaries sales. Nevertheless, our Group does not rely on any individual concessionaire considering that none of our concessionaires individually accounted for more than 1.5% of our turnover for any of the three years ended 31 December 2015.

Our Group offers a wide range of merchandise, which can be broadly divided into "apparel and fashion", "cosmetics and accessories", "household, toys and others", and "food and confectionary" to satisfy our customers' needs. Sales proceeds (net of tax) of each category of merchandise of our department stores during the Track Record Period are as follows:

| | Year ended 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | 2014 | | | 2015 | | |
| | Direct sales | Concessionaire sales | Total | Direct sales | Concessionaire sales | Total | Direct sales | Concessionaire sales | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Category** | | | | | | | | | |
| Apparel and fashion | 168 | 1,254,641 | 1,254,809 | 1,447 | 1,590,062 | 1,591,509 | 6,506 | 1,537,656 | 1,544,162 |
| Cosmetics and accessories | 78,947 | 1,019,247 | 1,098,194 | 117,227 | 977,532 | 1,094,759 | 147,891 | 990,241 | 1,138,132 |
| Household, toys and others | — | 562,837 | 562,837 | — | 395,837 | 395,837 | — | 370,823 | 370,823 |
| Food and confectionary | 313,147 | 419,458 | 732,605 | 302,445 | 452,852 | 755,297 | 292,099 | 448,770 | 740,869 |
| **Total** | 392,262 | 3,256,183 | 3,648,445 | 421,119 | 3,416,283 | 3,837,402 | 446,496 | 3,347,490 | 3,793,986 |

## Direct sales

Set out below is an illustration of our direct sales operation flow:


For direct sales in our department stores, we source and sell our own direct-purchase merchandise, including items available in our supermarket section, household items, and some cosmetics products. In general, merchandising plans are prepared every year by each sales division of each department store and supermarket which set out the range of products to be purchased based on past experience and the projected market trend and demand, taking into account our Group's budgeted sales and gross profit margins for that year. Sourcing of merchandise and negotiation of terms and conditions are then handled by our sales managers of respective division with reference to the merchandising plans.

The merchandising plans are revised from time to time in order to provide an appropriate mix of merchandise and improve the control of inventory level of our department stores and supermarkets and at the same time enhance the efficient use of working capital. Merchandise, in general, are purchased under the "purchase order" arrangements with suppliers. Our sales manager of respective division is responsible for selection of suppliers and negotiation with suppliers. Under this arrangement, we enter into standard direct supply agreements for different types of merchandise with our direct sales suppliers specifying the terms of supply and delivery of merchandise. We will record and account for the purchased goods as inventories at the time when they are delivered and are satisfactorily received. Such purchases are generally non-refundable unless the goods are defective. In general, the actual amount of purchase for the relevant period (26th day of each month to 25th day of the next month) shall be finalised within 15 days after the end of the relevant period. After that, the direct suppliers shall provide invoice to us for settlement within 5 days and payment shall then be made to the direct suppliers within 10 days after. Payment to our suppliers are made and settled by bank transfer.

Each of our department stores and supermarkets has a team of staff responsible for checking the physical condition of the goods upon their delivery and the sales division which orders the merchandise is responsible for checking the quality of the goods prior to display and/or storage. During the Track Record Period, we have received a minor number of claims for defective goods sold by way of direct sales, and such claims, whether on an individual or an aggregate basis, are immaterial to our Group. We shall be liable to end customers for any claims on defective goods sold after we have inspected and accepted the products from our direct sales suppliers. We do not have a product return policy or warranty policy, and any refunds and/or exchange of products are subject to our discretion in accordance with applicable PRC laws and regulations. Stock-takes are carried out from time to time for inventory control purpose.

The management of our Group will assess the marketability and the condition of the merchandise on a regular basis. Provision will be made for the obsolete merchandise once they are identified by the management of our Group. During the Track Record Period, write-down in the amount of approximately HK$250,000, HK$427,000 and HK$209,000 had been made for obsolete merchandise.

We also operate two Wa San Mai in the PRC and one in Hong Kong. Wa San Mai are Japanese teppanyaki style restaurants, featuring Japanese style teppanyaki, hotpot and sushi.

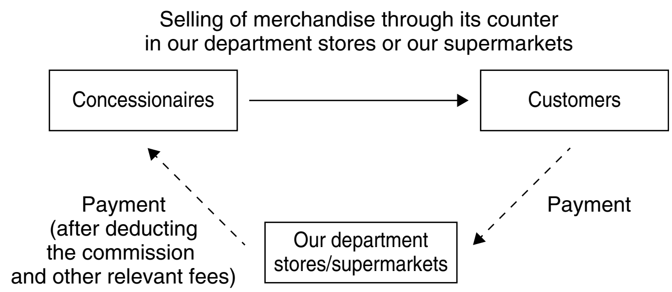
The following table sets out the sales proceeds (net of tax), costs of goods sold, gross profit and gross profit margin of direct sales during the Track Record Period:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Sales proceeds (net of tax) from direct sales | 392,262 | 421,119 | 446,496 |
| Cost of goods sold of direct sales | (253,145) | (277,474) | (293,266) |
| Direct sales gross profit | 139,117 | 143,645 | 153,230 |
| Direct sales gross profit margin | 35.5% | 34.1% | 34.3% |

Sales proceeds (net of tax) from direct sales contributed approximately 10.8%, 11.0%, and 11.8% to the sales proceeds (net of tax) of our Group in each of the three years ended 31 December 2015, respectively.

### Concessionaire sales

Set out below is an illustration of concessionaire sales operation flow:




We believe the "shop-in-shop" arrangements with concessionaires increase the attractiveness of our department stores by broadening the range of merchandise offered to customers. In addition, the risk and cost of holding inventories, as well as the selling costs, are borne by and transferred to the concessionaires. Concessionaire arrangements are typical for the operations of fashion, luxury accessories, cosmetic counters, home appliances, restaurants and fast food outlets. With the majority of our sales made through concessionaire sales, our Group is able to eliminate most of our inventory risk.

The following table sets out a breakdown of the number of our Group's concessionaires by broad product categories as at 31 December 2015:

| **Categories** | **Number of concessionaires** |
|---|---:|
| Apparel and fashion | 466 |
| Cosmetic and accessories | 335 |
| Household, toys and others | 197 |
| Food and confectionary | 146 |
| **Total** | 1,144 |

Our concessionaire arrangements reduce our net profit margin volatility due to the constant source of turnover provided by concessionaire commissions, a minimum amount of which is paid regardless of whether the concessionaire can meet the minimum commission. We also have the flexibility to change the product mix offered at our department stores and supermarkets and to replace and terminate concessionaires if they cannot meet the minimum commission.

The following table sets out sales proceeds (net of tax) from concessionaire sales, income from concessionaire sales, and the average concessionaire commission rate during the Track Record Period:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Sales proceeds (net of tax) from concessionaire sales | 3,256,183 | 3,416,283 | 3,347,490 |
| Income from concessionaire sales | 732,688 | 779,102 | 769,655 |
| Average concessionaire commission rate | 21.9% | 22.1% | 22.3% |

Sales proceeds (net of tax) from concessionaire sales contributed approximately 89.2%, 89.0% and 88.2% to total sales proceeds (net of tax) in each of the three years ended 31 December 2015, respectively. Income from our concessionaires is calculated based on certain percentages of sales proceeds (before tax) and is subject to an agreed minimum amount.

We enter into concessionaire agreements with certain concessionaires to allow them setting up their own sales counters for their products in designated areas in our department stores or supermarkets. A concessionaire agreement usually specifies the types of products allowed to be sold by that concessionaire in each department store or supermarket. In general, term of concessionaire agreements ranges from one to three years. Almost all of our concessionaires are responsible for the design, decoration and fitting out works of their counters at their own costs under the decoration policy guidelines set out by our Group and are also responsible for any regular repair and maintenance costs being incurred. In addition, each concessionaire has the obligation to employ its own staff and to maintain standards of quality acceptable to our Group with regard to the merchandise sold and the services provided. In respect of the concessionaire sales, our Group monitors the product mix and the sales of the concessionaire counters. We would discuss with and provide advice to the concessionaires regarding their sale performances, marketing and promotional strategies, and merchandise display. Furthermore, we offer certain training sessions regarding compliance with relevant regulations to the personnel of our concessionaires.

We charge our concessionaire a commission calculated based on certain agreed percentages of sales proceeds for that concessionaire, which generally ranges from approximately 3% to 34%, and with an agreed amount of minimum commission. With the exception of several brands where no minimum commission is required, nearly all concessionaires are charged on such basis. The commission charged by us on these excepted brands ranges from approximately 2% to 26%. The implementation of a different commission policy for these brands is based on individual commercial negotiations between the concessionaires and us. The amount of commission paid by such brands was approximately RMB6.5 million, RMB8.5 million and RMB9.6 million for each of the three years ended 31 December 2013, 2014 and 2015, respectively, accounting for approximately 1.1%, 1.4% and 1.5% of the total commission received from our concessionaires for each of the three years ended 31 December 2013, 2014 and 2015 respectively.

For those concessionaires whose commission otherwise payable does not exceed their respective minimum commission, the minimum commission will be charged. Sales proceeds from the concessionaire sales is first collected by us on the concessionaire's behalf and then returned to the concessionaire on a monthly basis after deduction of all relevant expenses and commission. Thus, we do not receive sales proceeds but commission income under the arrangement with our concessionaires.

A breakdown of the commission income from the concessionaires during the Track Record Period is set out as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Total commission charged | | | |
| Minimum commission | 458,776 | 465,483 | 463,364 |
| Commission on top of the minimum commission | 309,859 | 344,913 | 336,232 |
| Less: Sales tax | (35,947) | (31,294) | (29,941) |
| | 732,688 | 779,102 | 769,655 |

The following table illustrates a breakdown of the number of concessionaires by year of expiry of the relevant agreements:

| | As at 31 December 2013 | | | | |
|---|---|---|---|---|---|
| | Dalian Jiuguang | Shenyang Jiuguang | Shanghai Jiuguang | Standalone supermarket in Shanghai | Suzhou Jiuguang |
| Expiry date in 2014 | 89 | 14 | 543 | 12 | 94 |
| Expiry date in 2015 | 23 | 211 | 49 | 26 | 69 |
| Expiry date in 2016 | 1 | 56 | 6 | 5 | 214 |
| Expiry date in 2017 | — | — | — | — | 59 |
| Expiry date in 2018 | — | 5 | 1 | — | 4 |
| | 113 | 286 | 599 | 43 | 440 |

| | As at 31 December 2014 | | | | |
|---|---|---|---|---|---|
| | Dalian Jiuguang | Shenyang Jiuguang | Shanghai Jiuguang | Standalone supermarket in Shanghai | Suzhou Jiuguang |
| Expiry date in 2015 | 65 | 222 | 515 | 31 | 97 |
| Expiry date in 2016 | 26 | 66 | 85 | 18 | 278 |
| Expiry date in 2017 | 2 | 1 | 7 | — | 71 |
| Expiry date in 2018 | — | 5 | 1 | — | 7 |
| | 93 | 294 | 608 | 49 | 453 |

| | As at 31 December 2015 | | | | |
|---|---|---|---|---|---|
| | Dalian Jiuguang | Shenyang Jiuguang | Shanghai Jiuguang | Standalone supermarket in Shanghai | Suzhou Jiuguang |
| Expiry date in 2016 | 67 | — | 552 | 40 | 330 |
| Expiry date in 2017 | 4 | — | 39 | 7 | 92 |
| Expiry date in 2018 | — | — | 3 | — | 10 |
| Expiry date in 2019 | — | — | — | — | — |
| | 71 | — | 594 | 47 | 432 |

The table set out below shows the number of concessionaires terminated for failure to meet the monthly minimum commission during the Track Record Period.

| Year ended 31 December | Number of concessionaires terminated for failure to meet the monthly minimum commission |
|---|---|
| 2013 | 9 |
| 2014 | 9 |
| 2015 | 15 |

During the three years ended 31 December 2015, we did not receive any material claims against our Group for damages caused by defective goods sold by the concessionaires of our Group. Our concessionaires shall indemnify us if their goods sold are defective which causes claims against our Group.

**Standard form agreements regarding our department stores and supermarkets operations**

In general, we have adopted a standard form of agreement for direct suppliers and concessionaires regarding our department stores and supermarkets operations. We require such standard forms as a general foundation for the terms with our direct suppliers and concessionaires regarding our department stores and supermarkets operations to ensure consistent practice, control legal risk and minimise administrative expenses.

Any deviations from our standard form agreements are generally required to be approved by our Group's senior management. For agreements with certain leading brand direct suppliers and concessionaries, while we would tailor to their request but would insist to use our standard agreements with their suggested amendments to protect our interests.

The following table summarises the major terms of our standard agreements with direct suppliers and concessionaires regarding our department stores and supermarkets:

| | Direct suppliers | Concessionaires |
|---|---|---|
| Term | From one to two years | Usually one to three years |
| Products | The general brands and/or products to be supplied such as cosmetics and accessories and food and confectionary products. | The general brands and/or products to be sold. |

| | Direct suppliers | Concessionaires |
|---|---|---|
| Consideration | We generally source the merchandise from direct suppliers and sell them at our department stores and supermarkets to customers.<br><br>In general, the actual amount of purchase for the relevant period (26th day of each month to 25th day of the next month) shall be finalised within 15 days after the end of the relevant period. After that, the direct suppliers shall provide invoice to us for settlement within 5 days and payment shall then be made to the direct suppliers within 10 days after.<br><br>Payment to our suppliers are made and settled by bank transfer. | Generally, the concessionaire is charged with a commission amount on the amount of sales proceeds by the concessionaire. We may also include a monthly minimum commission which, in case the actual monthly commission is lower than the aforesaid minimum commission. In the event that the actual monthly commission is lower than the monthly minimum commission for six months consecutively, we are entitled to terminate the agreement.<br><br>Apart from commission charged, we will also charge the concessionaire a management fee, credit card transaction fee, warehousing fee, transportation fee, changing room fee for their staff, and promotional fee.<br><br>As a measure to minimise collection risk, all concessionaire sales are transacted at our cashier desk. At the agreed interval for payments, typically on a monthly basis, we return the sales proceeds (after deducting the relevant commission, the relevant fees and expenses owed to us) to the concessionaire.<br><br>In general, the actual sales proceeds and other relevant fees for the month shall be finalised within 20 days after the end of the month. After that, the concessionaire shall provide invoice to us for settlement within 5 days and payment shall then be made to the concessionaire within 10 days after. |

| | Direct suppliers | Concessionaires |
|---|---|---|
| Pricing | We set our own prices for the products, by making reference to the recommended retail prices in general, but the price may also be determined by the supplier of cosmetics and accessories in certain cases. | The concessionaires set the prices for their products. However, to maintain our competitiveness in the market, the product prices set by the concessionaire shall not be higher than the price of their products sold in other stores in the PRC.<br><br>In general, the concessionaires will also give special discounts on their standard price merchandise to our VIP Customers. The concessionaires may also participate in our special promotional events with details and fee arrangement to be agreed between us. |
| Guarantee | The suppliers guarantee that their products comply with the latest laws and regulations in the PRC. The suppliers may also be required to provide an amount as earnest money which should be used to indemnify us for, among others, our losses due to any breach of the agreement by the suppliers including but not limited to defective products. | The concessionaires guarantee that their products comply with the applicable laws and regulations in the PRC. Furthermore, the concessionaires are responsible for any failure to meet applicable rules and regulations and/or infringement of third party intellectual property rights. |
| Termination rights | The suppliers can terminate the agreements if we fail to perform our obligations under the agreements, including but not limited to that we fail or delay in paying the suppliers, and fail to rectify within seven days of the serving of the written notice from the suppliers. | No specific provision was provided in the agreements for the termination of the agreements by the concessionaire. However, if a concessionaire wishes to terminate the agreement, we will engage in discussion with the concessionaire and the agreement will be terminated upon mutual consent. |

### Customers

Sales proceeds from our department stores (including supermarkets within the department stores) are generated from purchases by customers/shoppers who shop at our department stores; and such sales proceeds may be derived from our direct sales of merchandise or from sales by our concessionaires. The retail shoppers are primarily individuals living in the communities and areas surrounding our department stores and typically settle payments in cash, debit cards, prepaid cards or credit cards on their purchase. None of our shoppers individually accounted for more than 1% of our turnover for any of the three years ended 31 December 2015. In respect of our turnover, the majority of our turnover was contributed by concessionaires during the Track Record Period.

### Top five concessionaires

During the Track Record Period, our top five concessionaires in aggregate accounted for approximately 4.2%, 4.3%, and 4.5% of our turnover, respectively. Our top five concessionaires during the Track Record Period include apparel and fashion, and jewellery concessionaires. In each of the three years ended 31 December 2015, our largest concessionaire accounted for approximately 1.4%, 1.1%, and 1.4% of our turnover, respectively.

The following information sets out the profiles of our top five concessionaires during the Track Record Period:

*In respect of the year ended 31 December 2013*

| Name of concessionaire | Business activities of concessionaires | Length of business relationship with our Group up to the year ended 31 December 2013 (years) | Turnover | Approximate percentage of our turnover |
|---|---|---|---|---|
| | | | *HK$'000* | *%* |
| Concessionaire A | Apparel and fashion sales | 9 | 17,277 | 1.4 |
| Concessionaire B | Apparel and fashion sales | 5 | 10,229 | 0.8 |
| Concessionaire C | Apparel and fashion sales | 1 | 9,724 | 0.8 |
| Concessionaire D | Apparel and fashion sales | 4 | 8,890 | 0.7 |
| Concessionaire E | Apparel and fashion sales | 4 | 6,751 | 0.5 |

*In respect of the year ended 31 December 2014*

| Name of concessionaire | Business activities of concessionaires | Length of business relationship with our Group up to the year ended 31 December 2014 (years) | Turnover | Approximate percentage of our turnover |
|---|---|---|---|---|
| | | | *HK$'000* | % |
| Concessionaire A | Apparel and fashion sales | 10 | 15,373 | 1.1 |
| Concessionaire C | Apparel and fashion sales | 2 | 12,513 | 0.9 |
| Concessionaire F | Jewellery sales | 7 | 11,890 | 0.9 |
| Concessionaire B | Apparel and fashion sales | 6 | 9,770 | 0.7 |
| Concessionaire D | Apparel and fashion sales | 5 | 8,437 | 0.6 |

*In respect of the year ended 31 December 2015*

| Name of concessionaire | Business activities of concessionaires | Length of business relationship with our Group up to the year ended 31 December 2015 (years) | Turnover | Approximate percentage of our turnover |
|---|---|---|---|---|
| | | | *HK$'000* | % |
| Concessionaire C | Apparel and fashion sales | 3 | 19,388 | 1.4 |
| Concessionaire A | Apparel and fashion sales | 11 | 12,876 | 0.9 |
| Concessionaire F | Jewellery sales | 8 | 11,582 | 0.8 |
| Concessionaire B | Apparel and fashion sales | 7 | 10,404 | 0.8 |
| Concessionaire E | Apparel and fashion sales | 6 | 7,596 | 0.5 |

Save as Concessionaire F, who was an associate of a Controlling Shareholder of the Lifestyle Group during the years ended 31 December 2013 and 2014, which ceased to be an associate of a Controlling Shareholder of the Lifestyle Group during the year ended 31 December 2015, and who was an associate of a director of the Lifestyle Group during the Track Record Period, all of our Group's five largest concessionaires during the Track Record Period are Independent Third Parties. Save as disclosed above, none of our Directors, their close associates or our Shareholders (whom to the knowledge of our Directors own more than 5% of the issued Shares) had any interest in any of our Group's five largest concessionaires during the Track Record Period. For payment methods with our five largest concessionaires, please refer to the paragraph headed "Standard form agreements regarding our department stores and supermarkets operations" above.

## Top five suppliers

During the Track Record Period, purchases from our top five suppliers in aggregate accounted for approximately 23.1%, 29.6%, and 33.2% of our total purchases, respectively. All of our top five suppliers during the Track Record Period are from our direct sales segment, including cosmetics and accessories, and food and confectionary suppliers. In each of the three years ended 31 December 2015, our largest supplier accounted for approximately 7.0%, 9.0%, and 9.8% of our total purchases, respectively.

*In respect of the year ended 31 December 2013*

| **Name of supplier** | **Principal business with our Group** | **Length of business relationship with our Group up to the year ended 31 December 2013 (years)** | **Purchases** | **Approximate percentage of our total purchases (not including restaurant business)** | **Approximate percentage of our total purchases** |
|---|---|---|---|---|---|
| | | | *HK$'000* | *%* | *%* |
| Supplier A | Provision of cosmetics and accessories | 7 | 18,374 | 8.0 | 7.0 |
| Supplier B | Provision of food and confectionary | 6 | 14,649 | 6.4 | 5.6 |
| Supplier C | Provision of cosmetics and accessories | 9 | 11,614 | 5.1 | 4.5 |
| Supplier D | Provision of cosmetics and accessories | 5 | 8,069 | 3.5 | 3.1 |
| Supplier E | Provision of cosmetics and accessories | 9 | 7,563 | 3.3 | 2.9 |

*In respect of the year ended 31 December 2014*

| **Name of supplier** | **Principal business with our Group** | **Length of business relationship with our Group up to the year ended 31 December 2014 (years)** | **Purchases** | **Approximate percentage of our total purchases (not including restaurant business)** | **Approximate percentage of our total purchases** |
|---|---|---|---|---|---|
| | | | *HK$'000* | *%* | *%* |
| Supplier A | Provision of cosmetics and accessories | 8 | 25,285 | 9.9 | 9.0 |
| Supplier C | Provision of cosmetics and accessories | 10 | 21,961 | 8.6 | 7.8 |
| Supplier B | Provision of food and confectionary | 7 | 19,712 | 7.7 | 7.0 |
| Supplier E | Provision of cosmetics and accessories | 10 | 8,422 | 3.3 | 3.0 |
| Supplier D | Provision of cosmetics and accessories | 6 | 7,921 | 3.1 | 2.8 |

*In respect of the year ended 31 December 2015*

| Name of supplier | Principal business with our Group | Length of business relationship with our Group up to the year ended 31 December 2015 (years) | Purchases | Approximate percentage of our total purchases (not including restaurant business) | Approximate percentage of our total purchases |
|---|---|---|---|---|---|
| | | | *HK$'000* | % | % |
| Supplier A | Provision of cosmetics and accessories | 9 | 28,382 | 10.6 | 9.8 |
| Supplier C | Provision of cosmetics and accessories | 11 | 27,952 | 10.5 | 9.7 |
| Supplier B | Provision of food and confectionary | 8 | 14,484 | 5.4 | 5.0 |
| Supplier F | Provision of cosmetics and accessories | 11 | 13,248 | 5.0 | 4.6 |
| Supplier G | Provision of cosmetics and accessories | 1 | 11,738 | 4.4 | 4.1 |

All of our Group's five largest suppliers during the Track Record Period are Independent Third Parties. None of our Directors, their close associates or our Shareholders (whom to the knowledge of our Directors own more than 5% of the issued Shares) had any interest in any of our Group's five largest suppliers during the Track Record Period. For credit terms and payment methods with our five largest suppliers, please refer to the paragraph headed "Standard form agreements regarding our department stores and supermarkets operations" above.

**Seasonality**

Our direct sales and concessionaire sales are subject to seasonal fluctuations. A high proportion of our sales is typically recorded in the period between November and February in the following year that covers major festivals and holidays such as Chinese New Year and Christmas. As a result of these fluctuations, comparisons of sales and operating results between different periods within a single financial year, or between different periods in different financial years, are not necessarily meaningful and cannot be relied on as indicators of our performance. During the Track Record Period, we were able to adjust the level of inventories to accommodate the increases in demand of merchandise during the traditional shopping seasons, and therefore did not experience a shortage of merchandise supply. Around 37.5%, 39.0% and 37.1% of our sales proceeds (net of tax) was generated during the four-month period of January, February, November, and December for each of the three years ended 31 December 2015.

## STORE MANAGEMENT

The day to day operation for each sales division of our department stores, including merchandising and inventory stock control, is mainly carried out by our sales division under the overall supervision of the deputy store managers or division manager in charge. Regular sales reports will be generated and prepared to assist the management in closely monitoring the operations of the department store. Information will include sales analyses on individual department/shopping floor, daily, weekly, monthly and annual comparisons, number of visitors, average daily number of visitors and visitor stay and buy ratio.

The above analyses assist the management to respond on a timely basis to market changes and take any necessary measures to formulate strategies to improve the overall performance of our department stores. Sales division managers of our department stores will then be responsible to implement and monitor compliance with various strategies adopted by our Group. Their work ranges from the design of the department store layouts, the display of goods to the organisation of promotion and special bargain sales.

For the overall management of our department stores, we initiate and coordinate overall promotion events within our department stores and review the merchandise mix, pricing and quality of goods from time to time.

Hours of operations of our department stores are typically between 10 a.m. to 10 p.m. from Monday to Sunday. The number of full-time staff (excluding the staff employed by our concessionaires) is different from store to store ranging from 125 to 567 employees as at 31 December 2015. The majority of our staff are sales personnel at our direct sales counters as well as support and administrative staff. Each individual department store is managed by deputy store managers or division managers in charge of operations and day to day management of such department store. In addition, surveillance cameras and our securities staff in our department stores monitor the safety of our department stores.

We may also from time to time conduct renovation of our department stores. We would generally obtain quotation from three contractors and select one as our contractor for renovation, and may also engage a design company to help us design the layout of our renovation. Our sales division may also request for minor renovation of the department store layout such as combining two shop areas in order to tailor to the request of certain concessionaires which may want a larger shop space. For certain larger scale renovation, we would obtain approval from relevant governmental authorities if necessary.

While there is no fixed policy for carrying out major renovation for our department stores, there are improvement and maintenance works being carried out throughout the year. Annual maintenance capital expenditure for each of Shanghai Jiuguang, Suzhou Jiuguang and Dalian Jiuguang during the Track Record Period was in the range of approximately RMB5 million to RMB10 million each.

The floor layout and merchandise/branding mix of each of our department stores were selected and may change in accordance with the local consumption preferences. All of our department stores are equipped with facilities, including securities and fire monitoring system, point-of-sales check-out system, centralised air conditioning, escalators, etc. which are in line with general standard for operating a unified department store chain.

**Payment arrangements**

Merchandise sold at our department stores are paid either in cash, by debit cards, prepaid cards or credit cards. Our Group is therefore subject to limited bad debts in our retailing business.

We have cashier desks operated and controlled by our own staff in our department stores to collect payments for merchandises. In order to minimise collection risks, payment from customers at our department stores are collected at these cashier desks. As each of the merchandise has a unique item code, our cashiers input the model or item code into our computerised record keeping system when customers make purchases at our department store and our system records such purchases as sales data for our Group.

As our business is cash-based in nature, we have implemented policies and procedures to ensure necessary records in relation to cash flow and sales receipts. For instance, cash receipts will be deposited into our bank accounts on a daily basis. A daily reconciliation will be carried out by each department store's cashier department to reconcile our sales data with cash and credit card receipts, debit card, and prepaid cards receipts in order to confirm the turnover generated and that there are no discrepancies between the sales data with cash receipts and credit card receipts, debit card, and prepaid cards receipts.

**Customer service**

We provide direct communications channels for customers' suggestions or complaints through our customer service centre in our department stores.

Furthermore, we generally offer the following services at our department stores to enhance the shopping experience the quality of services provided to shoppers/customers:

- Car parking
- Free alteration on non-discount items
- Gift wrapping
- Nursery room
- Free wifi

**Fire safety compliance**

As part of our measures to ensure fire safety compliance, we conduct mock fire drills once or twice a year at our department stores. As part of our staff training for new recruits, they receive fire safety training with additional training from time to time. From time to time, our staff patrols around fire exits of our department stores to ensure fire safety passages would not be blocked.

**Inventory management, IT system and quality control**

*Inventory management*

Our sales division of our department stores and supermarkets determines the overall procurement strategies and supervises procurement teams. The sales division of our department stores and supermarkets develops the brand and procurement strategies, establishes and manages the relationships with key concessionaires and other merchandise suppliers, maintains a database of brands and suppliers which enables us to identify the ones that do not sell in the department stores and supermarkets, and issues guidelines on selecting concessionaires and other merchandise suppliers. The sales division of our department stores and supermarkets is also responsible for other matters such as development of new department stores and supermarkets, planning merchandise and brand composition and floor layout, approaching and negotiating with potential concessionaires and other merchandise suppliers. The sales and marketing division at our department stores and supermarkets manage the store inventory, develop and manage relationships with store concessionaires, organise store-level marketing and promotional activities, and conduct store-specific market research.

Our Directors believe that the quality of suppliers and concessionaires plays an important role in the distribution chain and we have adopted a policy concerning supplier and concessionaire selection. We regularly conduct market research and meet with various suppliers. We will look at factors including their reliability in terms of product quality, pricing of products offered, after-sales service and promotion back-up they provide, when choosing suppliers and concessionaires. For new brands, we would consider whether such brands have any marketing plans and policy, and we will internally discuss whether such brand would be suitable and match with our Jiuguang Brand. Sales divisions will have weekly meetings with our deputy store managers or division manager in charge to report sales performance and discuss any improvement plans, while the deputy store managers or division manager in charge will have monthly meeting with our Chief Operating Officer and our Chief Executive Officer to discuss the operational and sales performance of each department store. We will also conduct our own market research to keep abreast of our competitors actions to help us improve and attract new and/or existing customers from our competitors.

Both direct suppliers and concessionaires for most products will normally be required to comply with our standard terms and conditions. Further, we will monitor sales generated from each of our concessionaires, if their sales are proved to be unsatisfactory or they do not meet our minimum commission as stipulated under the concessionaire agreement, we may exercise our contractual right to terminate our cooperation where possible.

For direct sales, on the basis of estimated inventory turnover days, we adopt the “safety stock level” and “first in first out” inventory policy to ensure an optimal level of inventory is maintained at the warehouses at our department stores and supermarkets. With respect to concessionaire sales, we do not bear any inventory risks. Inventory turnover days for the three years ended 31 December 2015 were approximately 54.9 days, 55.0 days and 47.4 days, respectively. For our direct sales merchandise, we normally adopt the clearance strategies such as providing sales discount on products (i.e. food products in our supermarkets) in order to clear the stock before their expiry date.

*Information and technology system*

Our information and technology system governs aspects of our business and operations. We have our own information technology department to manage our systems. Our Directors believe that our system is important in monitoring and analysing the efficiency of our operations and ensuring its maintenance especially when our retail network expands.

As at the Latest Practicable Date, each department store and supermarket in operation has a separate on-site server to record financial and operational data on a real-time basis. Our management and relevant departments are then able to access and analyse the data retrieved from our retail and financial management system for managing of our department stores and supermarket and the development of future strategies.

Our retail management system governs our basic day to day retail operation including purchases, sales, storage, direct suppliers and concessionaire management, sales and purchase budgeting, audits and settlements. This system captures price adjustments to the retail price from our special promotions and VIP Customer programme or other discounts.

By gathering data from our retail management system, our employees can prepare daily, monthly or annual sales or financial reports of, among other things, our turnover, profit, unit price as well as conduct necessary operational analysis. In general, our management will be given access rights to all the data of the department store and supermarkets, while employees of each division will be only able to access the information of their own division. Another key aspect of our financial management system is the use of our point-of-sales system, which records sales and generates invoices, to assist our staff in their daily reconciliation of sales figures.

We have also established a system to manage information of our VIP Customers including: J's Club card, our supermarket membership card, and co-branded credit card management, communication with VIP Customers, VIP Customers spending analysis, and VIP Customers gifts, promotions and discounts management.

*Quality control of our department stores and supermarkets*

We place considerable emphasis on product quality. In respect of our direct sales, each of our department stores and supermarkets has a team of staff, responsible for checking the physical conditions of the goods upon delivery and the sales division which orders the merchandise is responsible for checking the quality of the goods prior to stocking up for display and/or storage. Our staff also conducts periodic checks on the condition of the goods on display and/or storage to ensure that no damaged or expired products are sold. Regarding products in the supermarket of our department stores or standalone supermarket, we would perform even stricter checks on the products including whether such products are expired and whether the labels of such products are accurate and comply with relevant regulations. In respect of concessionaire sales, each of our concessionaires has an obligation to employ its own staff and to maintain the standard of quality acceptable to us with regard to merchandise sold and the services provided.

## MARKETING AND PROMOTION

### Marketing

Our marketing plans are drawn for each month or each year. Market research are conducted to collect market data relating to matters such as consumer behaviour and feedback from customers on the department store's or supermarket's various marketing tactics. These market surveys are normally conducted by interviewing customers at each floor of our department stores or at our supermarkets. Questionnaires, covering areas such as pricing and the range of merchandise offered in our department stores or at our supermarkets, the effectiveness of promotional materials distributed and comparison with competitors are answered by customers. The information collected is then used as reference material in formulating our marketing strategies. In addition to surveys, we also review the effectiveness of promotions which are held for major events and special occasions such as anniversary sales and during Christmas and Chinese New Year in order to further enhance our future performance.

To facilitate the promotion of our department store image and to position each of our department stores as "destination" stores, advertisements are placed such as in newspapers and direct mails, but we have been progressing towards digital marketing such as sending advertisement through mobile applications. We also post on our websites to keep customers informed and abreast of our latest promotional events and updates.

*In-store advertising*

For in-store light-boxes advertising, complementary advertisements are usually placed close to the concessionaire counters at our department stores. Depending on the location of the advertisements, different sponsorship fees are charged to the concessionaires and suppliers in addition to the initial advertising fee.

### Sales promotion

*Promotional events*

Since 2011, we have been holding the joint annual "Jiuguang Golf Open" event for Shanghai Jiuguang and Suzhou Jiuguang to promote our store image, as well as promoting certain sporting and other sponsoring brands which are available at our department stores. Other promotional events range from food festivals to fashion shows or celebrity-supported functions for men and women's fashion and accessories. We utilise these events to increase customer traffic at our department stores.

*Seasonal sales*

Sales campaign are run every summer and winter through summer sales and winter sales (including the Chinese New Year Sales and the Stock Clearance Sales), during which discounts are offered for almost all of the merchandise in our stores.

Sales of our Group follow the traditional shopping seasonal patterns in the PRC, with a higher proportion of sales being recorded around Christmas and Chinese New Year.

In addition to regular sales campaigns, special promotion events under different themes are also organised at our department stores or supermarkets to attract customers. These include the Spring Festival, the Mid-Autumn Festival, the Japanese Festival, Lucky Bag promotion, Christmas promotion, Mother's Day promotion, Children's Day promotion, as well as anniversary sales at each department store. During these events, special discounts are offered for selected items of merchandise and there are gift rewards, lucky draw and games for customers. Depending on the promotion events, concessionaires at our department store or supermarkets are invited to participate, for instance, by contributing to the costs and expenses incurred by us in marketing campaigns or by offering exclusively selected items at special prices.

*Private sales*

Our department stores conduct private sales for certain brands at our events hall to further increase our variety of merchandise.

*Loyalty programs*

VIP Customers with our J's Club card enjoy a 5% discount at certain counters in our department stores, and VIP Customers with our supermarket membership card enjoy a 5% discount on certain days at our supermarket. J's Club members and supermarket members will be given accumulated reward points for their purchases to exchange for different gift rewards. We have also introduced co-branded credit cards at our department stores to enhance customer loyalty. VIP Customers with co-branded credit cards enjoy discounts ranging from 5% to 10% for purchases at certain counters in our department stores, and may also enjoy other promotional benefits from time to time agreed to between the issuing bank and us. We believe that those customers who sign up for our J's Club cards, supermarket membership card or co-branded credit cards could be frequent shoppers. Marketing and promotional materials as well as provision of extra purchases incentives, participation in special events are from time to time communicated to these VIP Customers. We believe that our VIP Customers program operated through our J's Club cards, supermarket membership card and co-branded credit cards at our department stores and supermarket, is successful in promoting customer loyalty and stimulating purchases at our department stores and supermarkets, and that the launch of possible further co-branded credit cards in future may help further expand our VIP Customer base.

In general, every customer is entitled to apply for the J's Club card upon presentation of identity card with a minimum spending of RMB2,000 on a single day at our department store. Customers are entitled to apply for our supermarket membership card upon presentation of identity card with a minimum spending of RMB500 on a single day at our supermarket in general. Our Directors believe that our VIP Customer program can be one of the most attractive customer loyalty programs currently available in Shanghai, Suzhou, and Dalian department store chains, which offers not only discounts on purchases but also accumulated reward points at the same time.

### Prepaid cards

We sell prepaid cards at Shanghai Jiuguang and Suzhou Jiuguang. Prepaid cards which customers purchase have an expiry date of three years after issuance. Customers purchase these cards in varying amounts which can be used to purchase merchandise at a later date. If the individual using the card wishes to purchase an item that costs more than the cash value stored on the card, the customer must pay the difference between the amount of the merchandise and the amount stored on the card. Cash received from sales of prepaid cards is recorded in the combined statements of financial position as "trade and other payables", and does not recognise as turnover or sales proceeds until the customers use the prepaid cards to purchase merchandise. The amount of the prepaid cards sold for the three years ended 31 December 2015 were approximately HK$205.2 million, HK$164.0 million and HK$187.2 million respectively. As at 31 December 2015, the outstanding balance of prepaid cards sold was approximately HK$118.0 million. The amount of the prepaid cards redeemed for the three years ended 31 December 2015 were approximately HK$184.4 million, HK$166.3 million and HK$181.5 million respectively, representing approximately 5.1%, 4.3% and 4.8% of the total sales proceeds (net of tax) respectively. We have no forfeited income from prepaid cards during the Track Record Period since we will allow the customers to extend upon expiry date if there is unused balance in the prepaid cards. We have implemented control measures to ensure compliance with the relevant laws and regulations in the PRC on the issues, sales and use of prepaid card, including the requirement to register the name of the purchases of the prepaid cards.

## OUR EXPANSION PLANS

With the intention to expand our "lifestyle" department stores and market share in the PRC, we have from time to time explored investment opportunities. Given that our strategy is to operate large-scale department stores that provide a one-stop shopping experience to customers and to establish each of our department stores as a long-term landmark destination in the cities or area in which the store is located, we adopt the self-owned property business model. Further and where possible, we prefer the self-built approach by acquiring the land and building our own department stores on the sites.

Our Daning Project is located at Zhabei district (which was later merged into Jing'an district of Shanghai in November 2015) and there is a subway station nearby. We have conducted feasibility study in relation to our Daning Project, including but not limited to, general analysis of the department stores market in Shanghai, specific study of the competition, transportation network of the neighboring area of our Daning Project, as well as the feasibility analysis on the construction plan and mode of operation of our Daning Project. Jing'an district, where Shanghai Jiuguang locates, is one of the central districts of Shanghai situated in the centre of downtown Shanghai. We believe Zhabei district, being next to Jing'an district (at that time Zhabei district was a different district), could benefit from the growth and development of Jing'an district, and Zhabei district has also gradually established itself as an increasingly appealing district to city residents. We also believe that our Daning Project can reap the advantages of being a first mover considering there are currently no sizable department stores and shopping malls in the neighborhood of our Daning Project. As it was also our intention to develop a sizable commercial/shopping complex when we considered our then development plan in Shanghai, we believe Zhabei district would be suited to our development strategy as it could offer us sizable plot of land to develop into a sizable commercial/shopping complex. In light of these considerations, we believe that our Daning Project, when completed, would become a landmark destination in Zhabei District. As such, we acquired the Jing'an Land in 2011. Vacant site development and construction works commenced in 2013. Completion of our Daning Project is targeted to be in December 2018. With Zhabei district now being merged into Jing'an district, we believe the growth potential of the area where our Daning Project locates could be better realised.

Our Daning Project is to be erected on a site of approximately 50,153 sq.m. and is expected to comprise gross floor area of approximately 348,337 sq.m.. It is planned for commercial and office uses with an aggregate of approximately 179,116 sq.m. (comprising approximately 98,019 sq.m. of commercial and others uses and approximately 81,097 sq.m. of office use) above ground and approximately 169,221 sq.m. of basement (below ground area) for commercial and other uses.

It is expected that our Daning Project would feature two office towers of 20 storeys and a retail complex of 6 storeys above ground and 4 levels below ground. Basement 1 of the retail complex is intended to be for retail use, while basement 2 to basement 4 of the retail complex are planned to be primarily used for car parks, plant facilities for electricity supply, water processing and other related supporting facilities. Our Daning Project would feature our second department store under the Jiuguang Brand in Shanghai ("**Second Shanghai Jiuguang**"), which will be located within the retail complex, with the remaining retail space to be operated as a shopping mall, featuring brands and retailers complementary to our Second Shanghai Jiuguang.

The table below sets forth details of the construction plan of our Daning Project:

| **Status of construction plan** *(Note)* | **Estimated gross floor area** *(Note)* | **Estimated construction completion date** *(Note)* | **Estimated costs** *(Note)* |
|---|---|---|---|
| | *sq.m.* | | *RMB'million* |
| Acquisition of land use rights (site area of approximately 50,153 sq.m.) | — | — | 2,557 |
| Below ground area | 169,221 | November 2017 | 1,581 |
| Office towers | 81,097 | July 2017 | 785 |
| Commercial shopping complex | 98,019 | December 2018 | 943 |
| **Estimated total investments before financing costs** | | | 5,866 |

*Note:* Details of construction, estimated gross floor area, estimated construction completion date and estimated costs are based on construction approvals issued by the PRC regulatory authorities and assessment of management.

The estimated total investment costs of our Daning Project, which amounted to approximately RMB5,866 million before financing costs are to be funded by internal resources and bank borrowings. The costs incurred in the acquisition of land use rights amounting to approximately RMB2,557 million had already been fully settled in 2012. As at 30 April 2016, a construction cost of approximately RMB672.7 million has been incurred. The remaining estimated investment costs (including construction costs) of our Daning Project as at 30 April 2016 were approximately RMB2,636.3 million. It is expected that our bank balances and cash and existing unutilised banking facilities, which amounted to approximately HK$4,123.1 million as at 30 April 2016 are sufficient to fund such outstanding costs. Furthermore, it is also the intention of our Group to sell the two office towers in part or in whole when the sale permit is granted by the relevant authorities. Based on the forecast of Group and assuming these two office towers could be sold at the current market price, our Group would be able to realise a substantial amount of cash, which would help improve the cash flow of our Daning Project and our Group as a whole. On this basis and assuming the remaining retailing portion of our Daning Project will be held for rental purposes (including the portion of area which will be used for the operation of our Second Shanghai Jiuguang), the payback period of this investment will be shortened to approximately 15 years. As a landlord of the remaining retailing complex of our Daning Project, assuming 85% occupancy in the first year, we forecast that it will be able to generate sufficient cash to cover the operating costs and therefore achieving positive earnings before interest expense and finance costs, taxation, depreciation and amortisation ("**EBITDA**") in the first full year of operation and net profit in the second full year operation.

As one of the many retailers within the retail complex of our Daning Project, our Second Shanghai Jiuguang will be positioned slightly differently from our existing Shanghai Jiuguang that occupies the entire premises on a standalone basis. Based on the forecast of our Group and assuming that it pays rental for occupying the store premises for the operation of the store, we expect that the Second Shanghai Jiuguang will achieve EBITDA breakeven by the end of the first full year after the commencement of its operation and net profit in the second full year after the commencement of its operation.

The large retail market and strong spending power of customers in Shanghai had differentiated Shanghai from other retail markets in the PRC. According to the CIC Report, the retail sales value of Shanghai's department store industry increased from approximately RMB90.7 billion in 2010 to approximately RMB97.4 billion in 2015, representing a CAGR of approximately 1.4%. The retail sales value reached its peak in 2013 at approximately RMB100.2 billion. Shanghai, known as the international trade centre, international finance centre, international shipping centre and international economic centre, has the highest GDP among all cities in China in 2015. In accordance with the economic development, per capita disposable income of Shanghai is also the highest among all cities in China. Thus, Shanghai obtained a large share of China's department store market, which was about 8.2% in 2015. In 2015, Shanghai Jiuguang ranked third in terms of retail sales value in Shanghai's department store market, but the market share of Shanghai Jiuguang was only 2.4%. Our Directors believe that it is a positive indication of the size and capacity of the Shanghai retail market; and also the potential for our Group's expansion into the market to capture more sales and increase our market shares.

According to the CIC Report, the total retail sales value of Shanghai's department store industry has reached approximately RMB97.4 billion in 2015, with an annual growth rate of approximately 2.0% comparing to 2014. The retail sales value of Shanghai's department store industry is expected to reach approximately RMB113.0 billion in 2020, with a CAGR of approximately 3.0% from 2015 to 2020. The expected continuous future growth of Shanghai's department store industry is based on following market drivers: Firstly, as mentioned above, Shanghai has the highest GDP and per capita disposable income among all cities in PRC in 2015. The continuous growth of Shanghai's economy and purchasing power is expected to stimulate the department store industry to keep growing. Secondly, the upgrade of consumption structure towards high quality premium goods and such goods are mostly purchased through offline channels such as department stores. Thirdly, the leisure experience provided by department stores is also expected to stimulate the further growth of the industry as such experience cannot be provided online and fulfill the social needs of consumers. Furthermore, department stores are able to offer different types of promotional events to attract consumers rather than just price discounting as most commonly seen in the online platform. Thus, it is expected that Shanghai's department store industry would sustain growth in the forecasted period.

The Group's first department store, being Shanghai Jiuguang, was opened in Shanghai in 2004. Shanghai Jiuguang alone recorded turnover and gross profit of approximately HK$899.6 million and HK$647.3 million for the year ended 31 December 2015. Our Daning Project would be our second department store project in Shanghai. Leveraging on our over 10 years of department store operation experience in Shanghai and given that our Daning Project which is situated approximately five kilometres away from our Shanghai Jiuguang (eight subway stations away from our Shanghai Jiuguang which would take a travelling time of approximately 35 minutes), we believe that our Daning Project would not cannibalise sales of Shanghai Jiuguang but instead can increase our foothold in Shanghai. Furthermore, our Directors are of the view that increasing further our presence in the Shanghai market through our Daning Project fits well with our corporate vision of securing attractive retailing locations to creating our landmark position in the neighbourhood. Our Daning Project will not only consist of our Group's second department store in Shanghai, it is expected to be a commercial complex development comprising sizeable retailing premises and office buildings.

Shanghai is the most populous city in the PRC, with a population of approximately 24.2 million as of 31 December 2015 and has an urban area of approximately 660 square kilometres within the Shanghai Outer Circular Highway. According to Shanghai Bureau of Statistics, Shanghai's per capita disposable income of urban household reached approximately RMB52,962.0 in 2015 with an annual growth rate of approximately 8.4% comparing to that in 2014. The department store market in Shanghai is fragmented and with many market players. As mentioned above, despite Shanghai Jiuguang being ranked third in terms of retail sales value in Shanghai's department store market, the market share of Shanghai Jiuguang was only approximately 2.4%. This indicates the huge size and capacity of the department store market in Shanghai. Furthermore, although the department store market has become relatively mature in developed cities like Shanghai, the department store industry in Shanghai is expected to have steady growth in the foreseeable future as, according to the CIC Report, retail sales value of Shanghai's department store industry is expected to reach approximately RMB113.0 billion in 2020, with a CAGR of approximately 3.0% from 2015 to 2020. In addition, we believe Zhabei district, being next to Jing'an district (at that time Zhabei district was a different district), could benefit from the growth and development of Jing'an district, and it is a district in Shanghai with huge potential in growth in the coming years. Considering that there are no sizeable department stores or shopping malls in the neighborhood of our Daning Project, we consider Zhabei district possesses huge potential in its department store market. According to Shanghai Municipal Commission of Commerce, the growth rate of retail sales value of consumer goods in Daning commercial area was approximately 11.6% for the first half year in 2015. Considering the size and growth of department store industry and strong spending power of customers in Shanghai in general, as well as the potential in growth in the department store market in Zhabei district in the near future, we believe our Daning Project can allow us to capture the growth in the department store market in Shanghai and, in particular, in Zhabei District. Furthermore, evidenced by the consistent financial performance of Shanghai Jiuguang, despite increasing competition in Shanghai's retailing market, our Directors are of the view that our Daning Project would not directly compete against the sales of Shanghai Jiuguang. Instead, it is expected that our Daning Project could further enhance our brand equity and market share in the Shanghai department store market and our competitiveness against other department stores or shopping malls in Shanghai.

We have established working relationship with various local and international brands. As at 31 December 2015, the Group have 1,144 concessionaries and our top 10 concessionaries for the year ended 31 December 2015 have business relationship with us ranging from 2 to 11 years.

Our Jiuguang Brand is an established department store brand in the Yangtze River Delta region in China. According to the CIC Report, in 2015, Shanghai Jiuguang ranked third in terms of retail sales value in Shanghai's department store market with approximately 2.4% market share and Suzhou Jiuguang ranked fourth in terms of retail sales value in Suzhou's department store market with approximately 2.7% market share.

Taking into account the above reasons and factors, we are confident that the Group's expansion plans would be achievable and are positive on the future financial performance of the Group.

While our Group will retain ownership of the retail complex (including certain below ground areas) for operating our second Jiuguang department store in Shanghai, management intends to sell the two office towers in part or in whole when the sale permit is granted by the relevant PRC authorities. In the event that we sell or rent out to third party (other than for the department store operations or for purposes complementary to our department store operations) any part of this commercial complex after completion, we shall comply with the terms of the Newco Non-compete Deed. For further details, please refer to the section headed "Relationship with our Controlling Shareholders and the Lifestyle Group" in this listing document.

As at the Latest Practicable Date, we have not identified any other acquisition targets.

**SHENYANG JIUGUANG**

Shenyang Jiuguang was opened in October 2013. Before we acquired the Shenyang Land for the development of Shenyang Jiuguang in 2006, we had carried out sufficient feasibility study on Shenyang and Shenyang was then believed to be of fast economic growth and strong retail market. Economic factors had been taken into account for such feasibility study, however, contrary to our expectation when we carried out the feasibility study and the original market expectation, the economic condition and the retail market in Shenyang were weak in subsequent years due to both the macroeconomic factors and oversupply in the local market. As described in the section headed "Industry overview" of this listing document, the PRC department store industry has encountered challenges with the slowdown of China's economy growth, impact from new retail formats and increasing labour and real estate costs.

Since the opening of Shenyang Jiuguang in October 2013, it has been facing with a challenging and deteriorating operating environment with shrinking economic activities, oversupply of retailing space, weak local customer spending power and fragile consumer sentiment in Shenyang. Shenyang Jiuguang experienced an operating loss for each of the three years ended 31 December 2015 mainly due to the operating expenses, which include cost of sales, depreciation and amortisation of its properties and equipment and staff costs, cannot be covered by its turnover. In light of the anticipated prolonged economic slowdown in Shenyang, our Group strategically closed down the store in December 2015, as part of its efforts to reallocate our Group's resources to other more promising stores or business areas. In fact, due to the difficult local operating environment, since 2013, a number of other department stores in Shenyang, which had comparable size and scale with Shenyang Jiuguang had also been closed down.

We own the Shenyang Land and the property developed on top, comprising a 4-storey plus three levels of basement commercial building a total gross floor area of approximately 115,182.39 sq.m., which is located at No. 68 Zhongjie Road, Shenhe District, Shenyang, Liaoning Province, the PRC. As at the Latest Practicable Date, Shenyang Jiuguang was evacuated and closed down and the property remains as is but vacant. Our Directors are still considering the future usage of Lifu Plaza. If our Group decides to change the use of the Shenyang property to the Other Usages after completion of the Spin-off, the provisions regarding the change of usages under the Newco Non-compete Deed will apply to the Shenyang property. In such an event, our Group will make an offer to the Lifestyle Properties Group for the purchase of the relevant property at a price equivalent to the fair valuation of the relevant property as determined by an independent valuer in accordance with the requirements of the Newco Non-compete Deed. If such offer is rejected by the LP Independent Board Committee and (where necessary) independent shareholders of Lifestyle Properties, our Group shall be entitled to deal with, hold or use the relevant property for the Other Usages. In the event we decide to further develop or recommence business at the Shenyang property in the future, our Directors shall ensure that we comply with the relevant laws and regulations and obtain all relevant permits and property certificates regarding the Shenyang property.

## INVESTMENT IN ASSOCIATES

We have interests in the following associates:

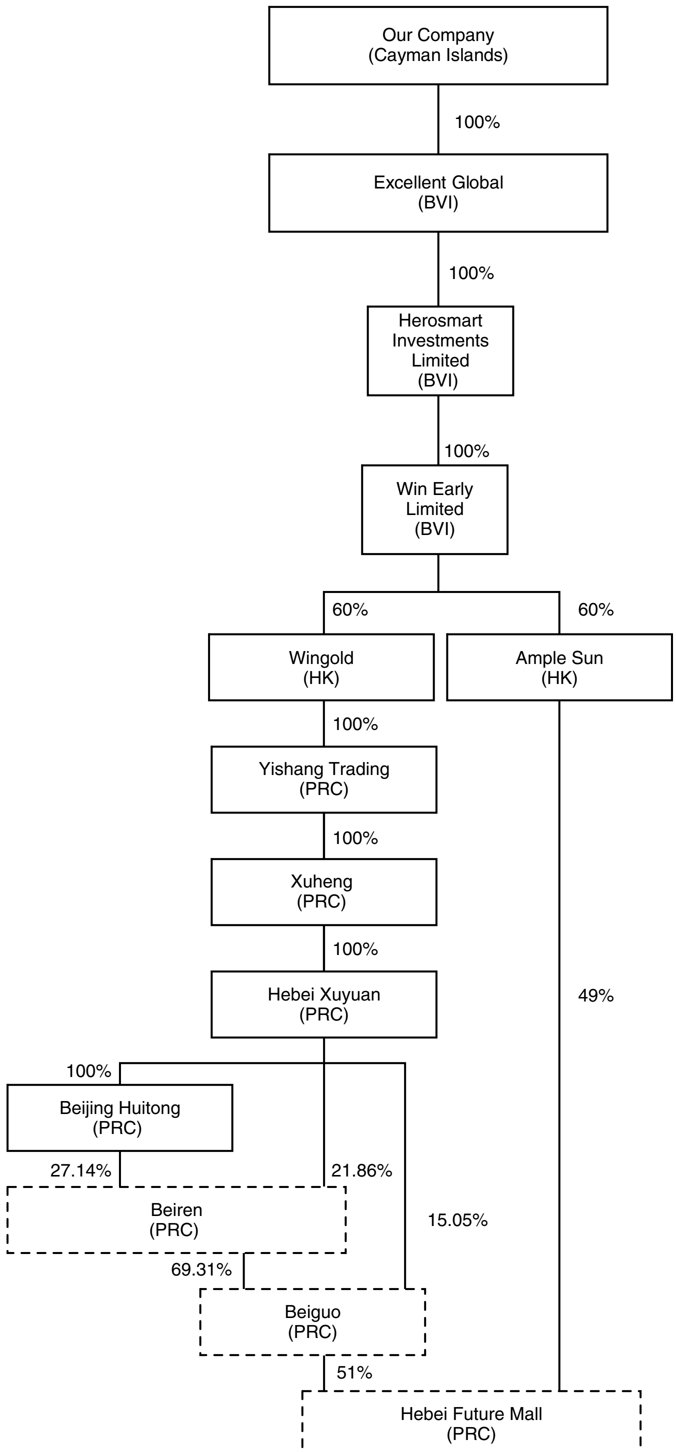
| Name of entity | Form of business structure | Place/ country of establishment/ incorporation | Principal place of operation | Proportion of nominal value of issued capital/ registered capital held by the Group | Proportion of voting power held | Principal activities |
|---|---|---|---|---|---|---|
| Beiren *(Note 1)* | Incorporation | PRC | PRC | 49% | 49% | Investment holding of a group of companies engaging in the operation of department stores, supermarkets and property leasing |
| Hebei Future Mall *(Note 2)* | Incorporation | PRC | PRC | 2013 & 2014: 48%<br>2015: 49% | 2013 & 2014: 48%<br>2015: 49% | Retailing business in the PRC |
| Dragon Sign Limited | Incorporation | Hong Kong | PRC | 50% | 50% | Investment holding of a company engaging in operation of restaurants in the PRC |

*Notes:*

(1) Our Group's 60% owned subsidiary, Wingold, indirectly holds equity interest of 49% in Beiren as at 31 December 2013, 2014 and 2015.

(2) During the year ended 31 December 2015, our Group further acquired 1% equity interest in Hebei Future Mall at a consideration of HK$13,360,000. At 31 December 2013, 2014 and 2015, our Group's 60% owned subsidiary, Ample Sun, held equity interest of 48%, 48% and 49% in Hebei Future Mall, respectively. In addition, 51% equity interest of Hebei Future Mall was being indirectly held by a non-wholly owned subsidiary of Beiren.

Set out below is the simplified illustration of our Group's investment in the Beiren Group:




*Note:* Beiren, Beiguo and Hebei Future Mall are companies of the Beiren Group.

**Beiren Group**

We have made equity investments in the Beiren Group, a leading retailer based in Shijiazhuang, Hebei Province in the PRC, in 2008 and 2010, resulting in our Investment in Beiren Group. However, we have no control over Beiren Group's business, operation or financial policies. We believe that the investment has broadened our exposure to the department store market in Hebei Province, the PRC which we have no prior exposure and experience such that our Group and the Beiren Group can leverage on each other's experience in the PRC retail market.

The Beiren Group was established in 2000 and it is one of the PRC's top 500 enterprises in 2012. The Beiren Group employed over 30,000 staff. The Beiren Group is a leading state-owned retail group based in Shijiazhuang, Hebei Province, the PRC with retail businesses such as department store and shopping mall operations, supermarkets, and electrical appliances and consumer electronics. As at 31 December 2015, the Beiren Group operates a total of approximately 1.3 million sq.m. of retail space that comprises 18 department stores, 39 supermarkets and various shops and points of sale specialising in electrical appliances, consumer electronics, and gold and jewellery. Most of the operations of the Beiren Group are located in Shijiazhuang. Department stores and retailing business of the Beiren Group are located in Shijiazhuang with certain operations also in other areas in Hebei Province, the PRC, such as Baoding, Xingtang, Qinhe, and Xingtai. The department stores of the Beiren Group includes the Future Mall owned by Hebei Future Mall, which is a shopping complex with a gross floor area of approximately 162,151 sq.m., located in Shijiazhuang.

Similar to our own department store operations, depending on the size and location of each store, department stores and shopping malls of the Beiren Group also feature a combination of sales through concessionaire arrangement and direct sales. While most of its smaller stores focused on retailing the mid-end market items, Beiren Group's flagship stores, including the Future Mall and 北國商城 (Northland Mall*), house a variety of high-end international branded merchandises.

We also have directorships in three of the investment companies of the Beiren Group, including Beiren, Beiguo, and Hebei Future Mall. Our board representation in the Beiren Group allows us to be provided with operational and financial information of the Beiren Group from time to time in order for us, as an investor of the Beiren Group, to keep ourselves abreast of the development of the Beiren Group, despite not being involved directly in its operations.

The following sets out our board representation in the following companies of the Beiren Group as at the Latest Practicable Date:

| Name of the company | Directors in the Beiren Group from our Group | Registered capital | Principal business |
|---|---|---|---|
| Beiren | Mr. Thomas Lau<br>Mr. Poon Fuk Chuen | RMB800 million | Investment holding company |
| Beiguo | Mr. Thomas Lau<br>Mr. Poon Fuk Chuen | RMB603.26 million | Department stores, supermarkets and retailing business |
| Hebei Future Mall | Mr. Thomas Lau<br>Mr. Poon Fuk Chuen | RMB55 million | Retailing business |

Considering Beiren Group's steady financial performance in recent years and our long term relationship with its management team, we expect to maintain our current investment in the Berien Group in the foreseeable future.

*Shopping malls and department stores of the Beiren Group*

The Beiren Group's department stores sell a variety of products, including but not limited to athletic apparel, office apparel, casual apparel, apparel, underwear, footwear, luxury designer items, jewellery, accessories, cosmetics, leather goods, toys, children wear, household appliances, computers, digital cameras, watches, beds, mattresses, etc.. Additionally, the Beiren Group's department stores have diverse restaurant selections, which include cuisines such as, but not limited to, Chinese hot pot, fast food, Japanese ramen, coffee shop, bakery, tea shop, etc.. The Beiren Group's department stores have individual websites, which display information regarding brands and restaurants available at respective malls. The websites also include information updates, brief descriptions of each floor, portals for customers to connect with customer service desks, recruitment information for prospective employees and lifestyle related blogposts. Additionally, the websites advertise various brands, display pictures of the department stores' buildings, provide promotional updates and announce new products available at their stores.

Despite the Beiren Group's extensive network and largest market share in Shijiazhuang, the Beiren Group continues to strive for growth through its marketing efforts, such as its members' club. The club offers promotional events and discounts for its members, as well as a multi-tier customer loyalty program. Regarding the customer loyalty program, customers qualify as VIPs across various tiers, depending on their total spending amounts at the Beiren Group department stores, irrespective of which the Beiren Group chain. The different tiers offer different promotions and discounts. Some department stores have members' only areas.

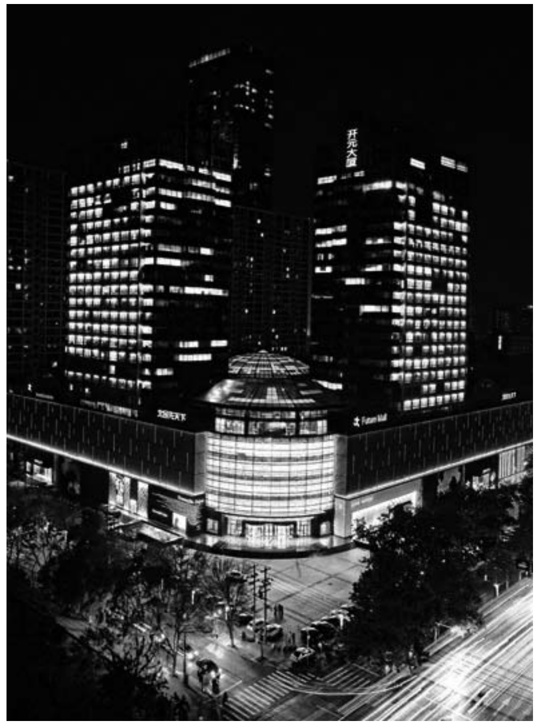
According to the CIC Report, Shijiazhuang is the provincial capital of Hebei Province and also one of the important cities of Beijing-Tianjin-Hebei region. According to the CIC Report, retail sales value of the Beiren Group's department stores operation reached approximately RMB6.8 billion, with a market share of approximately 47.2% in Shijiazhuang in 2015.

The more notable of the department stores and shopping malls of the Beiren Group are the following:

Northland Mall

Northland Mall is a shopping mall operated by the Beiren Group located in Shijiazhuang. Northland Mall was opened in 1996 and was one of the leading retail enterprises in Hebei Province. Northland Mall consists of department stores, restaurants and other entertainment facilities. Merchandise available at the Northland Mall include, among others, electronics products, household items, office supplies, jewellery, food and confectionary, fashion products, as well as international brand boutiques and cosmetics shops. According to the CIC Report, Northland Mall is the largest department store in Shijiazhuang under the Beiren Group.

Future Mall

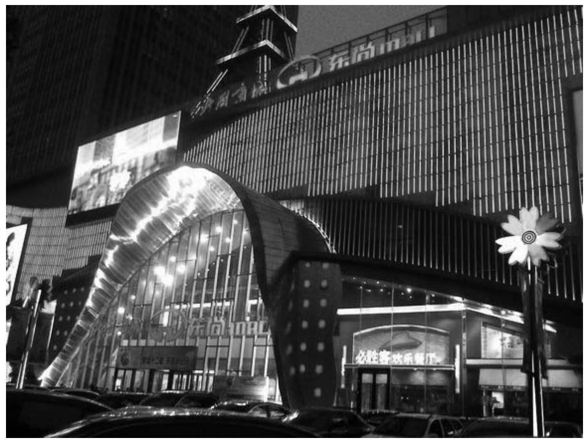


Future Mall is a shopping mall operated by the Beiren Group located in Shijiazhuang. It is located in the commercial centre in Shijiazhuang and it is the location of over 600 different international brands. It also hosts a supermarket, various restaurants, beauty salons, gaming arcades, movie theatres, and also VIP areas and commercial meeting rooms. The Future Mall is the latest shopping mall of the Beiren Group.

新百廣場 (Xinbai Plaza)

Xinbai Plaza is also another shopping mall operated by the Beiren Group located in Shijiazhuang. It features shopping mall with department store, supermarkets, electronics, movie theatres, restaurants, and other facilities. Similar to the other shopping malls above, it also has facilities for VIP guests and other promotions to attract customers.

東尚Mall (Beiguo Dongshang Mall*)



The Beiguo Dongshang Mall, also situated in Shijiazhuang, has been operated by the Beiren Group since 2010 and is considered by the Beiren Group to be targeted towards the younger group of customers. It also features department stores, karaokes, movie theatres, restaurants, and other facilities to tailor for the younger group of customers.

The Beiren Group also operates other shopping malls and department stores such as Yiyou Department Store* ("益友購物中心"), Yiyuan Department Store* ("益元百貨"), and Yidong Department Store* ("益東百貨購物中心"), all located in Shijiazhuang.

*Supermarkets of the Beiren Group*


Beiguo Supermarket ("北國超市") consists of various supermarkets operated by the Beiren Group located in various areas such as Shijiazhuang, Xingtai and Baoding in the Hebei Province. Beiguo supermarket commenced operations in 2000. Beiguo Supermarket is also located inside shopping malls of the Beiren Group, as mentioned above. A wide range of products is offered at the Beiguo Supermarket, such as electronics products, household items, and food and confectionary products. According to the CIC Report, Beiguo Supermarket was the leading participant in the supermarket industry in Shijiazhuang with retail sales value of approximately RMB4.8 billion in 2015.

Beiguo Supermarket capitalises on its economies of scale and leader position in the Shijiazhuang supermarket industry, through its various promotional and VIP programs. Beiguo Supermarket operates a website that allows suppliers to access its online supply chain management system. Regarding its customer loyalty program, similar to the Beiren Group's department stores, Beiguo Supermarket also offers a multi-level customer loyalty program, where spending across any chain supermarket may be counted towards a customer's VIP account. The different tiers offer different promotions and discounts. Through its subsidiaries, the Beiren Group occasionally offers seasonal travel packages to its VIP customers at discount prices.

*Electronics stores of the Beiren Group*

Beiguo Electronics* ("北國電器") consists of various electronics stores operated by the Beiren Group located in various areas in Shijiazhuang, with its first main store opened in 1996. Since then, Beiguo Electronics has opened other electronics stores in various areas in the Hebei Province in the PRC, as well as inside shopping malls operated by the Beiren Group. Products offered at Beiguo Electronics include televisions, mobile phones, and other household electronics goods.

*Others*

The Beiren Group is also authorised dealers of jewellery brands including certain famous brands. Jewellery shops operated by the Beiren Group are in Shijiazhuang, and other locations mainly in the Beijing–Tianjin Hebei region, with over 70 jewellery shops across the PRC.

*Financial information of Beiren Group*

Summarised financial information in respect of the Beiren Group is set out below.

| | As at 31 December | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Current assets | 7,299,030 | 7,558,800 | 7,518,270 |
| Non-current assets | 5,308,482 | 5,708,220 | 6,150,530 |
| Current liabilities | 8,309,585 | 8,423,681 | 8,374,419 |
| Non-current liabilities | 75,984 | 77,174 | 75,832 |

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | 8,079,094 | 8,131,158 | 8,825,993 |
| Profit for the year | 429,319 | 470,846 | 450,963 |

**Dragon Sign Limited**

We also invested in Dragon Sign Limited which operates Longji and Royal China in the PRC. Longji is a Hong Kong style "cha chaan teng" (茶餐廳), while Royal China is a restaurant with cuisine including the middle to upper-end Cantonese food.

**STAFF TRAINING**

As at the Latest Practicable Date, we had approximately 1,478 full-time employees of whom 1,416 are located in the PRC and 62 are located in Hong Kong. For the experience and qualifications of our Directors and senior management and breakdown of employee, by function, please refer to the section headed "Directors, senior management and staff" of this listing document. We have established certain policies in regard to different categories of employees for their training, assessment and benefits. Our Directors are of the view that we have maintained a good relationship with our employees and furthermore, confirm that during the Track Record Period, we did not have any material labour disputes with our employees.

In order to ensure the quality of our service to our customers and their satisfaction, we have an employee training program for all our employees (including generally the staff of our concessionaire). Our existing employees are also required to undergo skill development from time to time. We believe that the training of new staff and existing staff is the key to maintaining our customer-oriented services and attracting new customers to our department stores, supermarkets and restaurants. We also arrange management skills training to our senior management.

Our employees in the PRC participate in social insurance plans and housing provident fund plans. As at the Latest Practicable Date, we made contributions towards such pension plan, medical insurance, unemployment insurance, injury insurance, maternity insurance, and housing provident fund.

As required by the employment laws in Hong Kong, our Group is required to participate in the mandatory provident fund scheme to provide retirement benefits for Hong Kong employees. Our Group's Hong Kong employees are also entitled to medical welfare provided by our Group and accommodation is provided in the PRC to our Hong Kong employees who work in the PRC.

## INSURANCE

In accordance with the PRC laws and regulations and general market practice in the PRC retail industry, we have insurance covering risks such as business interruption, loss of or damage to property, public liability, employee's compensation and goods in transit. We would usually request quotation from three different insurers each year and choose one as our insurer for the year. However, our Group does not maintain insurance against all the risks associated with our operations due to various reasons, given that some risks are generally not covered by insurers in their insurance standard policies or would have only minimal impact to our Group or would involve in substantial amount of premium and not commercially justifiable. As industry practice, insurance for certain risks such as product liability are not generally obtained, we do not have insurance over those risks. Furthermore, based on the limited amount of claims for defective goods made against us during the Track Record Period and in view of the premiums for product liability insurance for a retail department store, we do not consider it appropriate from a cost and benefit standpoint to take up product liability insurance for all goods sold by us. Also, we generally require the relevant concessionaire, supplier and in certain cases, shop tenant to indemnify us under the relevant agreements where the products sold or supplied by it infringe a third party's intellectual property rights.

Our Directors confirm that the amount of insurance coverage taken out is typical for similar operations and sufficient for us.

## MARKET CHALLENGES

According to the CIC Report, the market challenges of China's department store industry include the slowdown of China's economy growth and impact from new retail formats. China's macroeconomy is maturing and the nominal GDP ranked the second place in the world in 2015, and the growth rate of China's macroeconomy is expected to slow down in the next few years. As a result, the growth rate of department store market is forecast to slow down accordingly. According to the International Monetary Fund, the real GDP annual growth rate of China would slow down from approximately 6.9% to approximately 10.6% during 2010 and 2015 to from approximately 6.0% to approximately 6.5% over the next five years.

According to the CIC report, the emerging online retail channel has made a significant impact on supermarkets and hypermarkets as well as retailing industry in general. Due to the competitive lower price, convenient payment system and gradually improved distribution service, online retail is taking more market share in retailing industry. According to NBSC, the retail sales value of consumer goods in China increased from approximately RMB15.7 trillion in 2010 to approximately RMB30.1 trillion in 2015, representing a CAGR of approximately 13.9%. Online retail has experienced a rapid growth within these years. According to the CIC Report, the total online retail sales value in China increased from approximately RMB0.5 trillion in 2010 to approximately RMB3.2 trillion in 2015, representing a CAGR of approximately 45.0%, much higher than the growth of retail sales value of consumer goods in China during the same period.

China's department store has experienced a great challenge from new retail formats especially online retailing, and the challenge is likely to continue in the future. Due to the higher operating cost for department stores comparing with that for online retailing such as labour cost, real estate cost and marketing expense, department stores are unable to compete with online retailers in terms of price which is one of the most important criteria of consumer. Furthermore, in accordance with the fast life pace, online retailing is also winning the retail sales market as it is faster, easier and more convenient to make purchase online and having the products shipped to home or preferred locations.

Despite the recent downturn in the PRC economy and consumer market in general, the turnover and profit of Shanghai Jiuguang and Suzhou Jiuguang remain stable during the Track Record Period. Furthermore, according to the CIC Report, the retail sales of consumer goods is expected to grow at a CAGR of approximately 8.4% from 2015 to 2020. As a large proportion of retail sales of consumer goods occur in department stores and supermarkets, both of these two industries are expected to continue their growth in the future.

According to the CIC Report, despite the wide acceptance of online retailing, as most of the purchases of middle to upper-end products were made via offline channels such as department stores and shopping malls, department store remains an important retail format. As our "lifestyle' department stores are primarily focusing on middle to upper-end products, we believe that we are less exposed to the challenge from online retail. According to the CIC Report, although online retail is seeing a rapid growth, the majority of the purchase of consumer goods was still identified in offline retail channel. According to the Ministry of Commerce of the PRC, in 2015, the total online retail sales value of consumer goods was approximately RMB3.2 trillion, representing approximately 10.6% of total retail sales value of consumer goods. On the other hand, consumers pay more attention to the shopping experience and customer service when they purchase middle to upper-end goods, thus offline retail channel is advantageous in such characteristics comparing to online retail channel. Furthermore, most middle to upper-end brands do not offer official online retail option in China. According to the CIC Report, the number of middle to upper-end brands that can be purchased from official online channel was less than 10% in 2015. Therefore, most consumers still purchase these brands through offline retail channel such as department store, outlets and shopping centres.

In view of the potential threat from online retail, we will attempt to remain competitive in the market by conducting more market research to identify popular products and brands to be offered to our customers and enhancing our marketing and promotional activities including cooperating with luxury brands to organise fashion shows and lucky draws. With our financial resources and human resources, we believe we could, through such research and promotional activities, adapt to changing market needs and solidify our market position. Further, shopping experience through offline retail channels, including the offering of customer services, alterations services and fitting services, cannot be replaced or achieved through online retail. In particular, personalised customer services (for instance, provision of shopping advice) and direct customer communication are not available through online retail. Our ability to maintain comfortable shopping environment and quality customer services could help us counter the threat from online retail. In addition, our Group also has an experienced management team that has led us through economic downturn periods such as the global financial crisis while continuing to increase turnover and profit. Taking into account the above reasons and factors, and the fact that the sales of Shanghai Jiuguang and Suzhou Jiuguang have remained stable during the Track Record Period, we believe that the Group's business model is sustainable and are positive on the future financial performance of the Group.

## COMPETITION

According to the CIC Report, the PRC department store market is relatively concentrated, and leading players are mostly chained department store groups that open department stores across different regions. Majority of the department stores are located in economically-developed regions, such as coastal cities and the Yangtze River Delta Region.

According to the CIC Report, Shanghai has the highest nominal GDP of city in the PRC in 2015. The department store market is relatively mature in Shanghai. The market is highly competitive with lots of domestic and foreign companies. The top three department stores by retail sales value in 2015 were Shanghai No. 1 Yohan, Shanghai New World Department Store and Shanghai Jiuguang, with market share of approximately 4.7%, 3.6% and 2.4%, respectively. Suzhou's GDP ranked seventh place among cities in the PRC in 2015. The top five department stores in 2015 by retail sales value were Suzhou Renmin Department Store, Suzhou Shilu International Department Store, Suzhou Tower Department Store, Suzhou Jiuguang and Suzhou No. 1 Department Store, with market share of approximately 6.0%, 3.0%, 2.9%, 2.7% and 0.7%, respectively. Dalian is one of the developed cities in Northeast China. The department store market in Dalian is dominated by Dalian Dashang Group Co., Ltd. with a market share of more than 80% by retail sales value in 2015. Shijiazhuang is the provincial capital and also the largest city of Hebei Province. The department store market in Shijiazhuang is dominated by the Beiren Group in which we have equity interest.

According to the CIC Report, due to homogeneous products in department stores, the brand loyalty of department store is relatively low. One of the key success factors of leading department stores in the market is to differentiate themselves. By providing exclusive and differentiated products, leading department stores are able to attract more customers thus boost the sales. Also, the success of a department store is highly dependent on the management team. An outstanding management team is capable of formulating a successful marketing strategy, improving daily operation efficiency, offering better customer services and even obtaining advantages when negotiating with retailers. Furthermore, a good brand image is essential to department stores in two aspects. A good brand image of a department store is attractive to retailers, ultimately gives more bargaining power to the department stores. A good brand image is also attractive to customers, thus improving the customer footfall of the department stores as well. Finally, a favourable store location acts as another key success factor for the department store market. By opening the department stores in downtown with convenient access of public transportation, department store is able to access more customers and utilise the population density of city centre, ultimately to generate more sales.

According to the CIC Report, there are also various entry barriers of the PRC department store market. For example, the investment requirement of department store sets up a high capital barrier to new entrants, especially for self-owned property model. The operation of department store requires massive real estate cost, the possession of a complete store management team and staff, which all require a large amount of initial capital investment. Also, in general, customers are willing to purchase goods from well-known department stores as customers believed that the goods provided have better quality and value. The establishment of brand awareness requires years of successful operation which becomes another entry barrier to new market participants. Furthermore, in order to achieve competitive advantage in terms of outstanding customer service, the management team is essential to a department store in both daily operation and long-term brand establishment. Usually, a well-known department store hires its management team with years of operation experience. The access to experienced management team sets up another barrier to new comers. Finally, as the PRC department store market still highly depends on concessionary sales model, it is important for department store to have the access to ideal retailers. For example, famous luxury brands are usually cautious when making the decision to open up a new standalone store. Department stores usually spend more on these retailers, such as by setting up exclusive cashier and lower the percentage of turnover paid to department store, in order to enjoy the benefit that these top tier brands could bring to the department store.

Our Directors believe that our Group has the competitiveness to combat the challenges faced in the department store market in the PRC. Our Group operates department stores under the Jiuguang Brand in Shanghai, Suzhou and Dalian with a market positioning of middle to upper end. In accordance with the positioning strategy, each store introduces famous high-end brands into the store and enjoys a good reputation and brand image among customers. Also, our Group's department stores are in locations including Nanjing Xi Road in Shanghai, Harmony Times Square in Suzhou and the downtown area of Dalian, which all have the benefits of high population density in city centre and easy access to public transportation. With the favourable store location, our Group is able to occupy a high customer volume. Furthermore, our Group has an experienced management team to manage its department stores in the PRC. Finally, our Group adopts the strategy of creating a one-stop shopping experience, for customers by offering a wide range of products as well as in-store auxiliary services to allow our departments stores to attract a large shopping audience and to prolong the amount of time customers remain in our department stores in order to enhance the overall customer footfall and sales of our Group.

## LEGAL COMPLIANCE AND LITIGATION

### Licenses and approvals

In relation to the operation of our department stores, supermarkets and restaurants in the PRC, apart from the necessary business licenses for operating hypermarkets and hygiene license for public places, depending on the type of merchandise offered, we are also required to obtain alcohol circulation registration, food operation permit, food service license, etc.. As for operation of our restaurant in Hong Kong, we are required to obtain a restaurant license and liquor licenses for sale of liquor in the restaurant. Please refer to the section headed "Regulatory overview" of this listing document for details.

Each of the concessionaires is required to obtain all valid licenses (if applicable) for the operation of its business at our department stores and supermarkets. In the event that a concessionaire relies upon our license to operate its business within the designated area, it is required to maintain all such licenses and not to do anything which might prejudice the future grant or renewal of such or similar licenses and to comply with all requirements, directions and recommendations from time to time of the licensing authorities. Such concessionaire is also required to indemnify our Group against all costs, claims, liabilities, fines, penalties, or other expenses which may fall upon any member of our Group by reason of any non-compliance.

We also maintain a team comprising staff with experience in legal, compliance and company secretarial matters to monitor the operations of our Group to ensure that relevant regulatory requirements are complied with including registration of intellectual property rights, and dealing with litigation and labour issues. We also engage consultants and professional advisers from time to time to advise us on licensing and regulatory requirements, the handling of disputes arising in the ordinary course of business of our Group and other legal matters.

**Environmental and safety matters**

We are subject to PRC environmental laws and regulations as well as environmental regulations promulgated by local government authorities. These include regulations on air pollution, noise emissions and water and waste discharge. Each property developed by our Group must undergo environmental assessments and an environmental impact study report needs to be submitted to the relevant governmental authorities before approval is granted for commencement of the property development. At completion of construction of each property, the relevant government authorities will also need to inspect the site to ensure that applicable environmental standards have been complied with, and the resulting report is then presented together with other specified documents to the local construction administration authorities for their record.

In respect of our restaurant operations in Hong Kong, we are required to obtain a water pollution control license from the EPD and comply with the requirement under the WPCO.

We have a policy regarding occupation and health safety in our department stores, supermarkets, and restaurants to ensure the safety of working conditions of our staff. During the Track Record Period, we only had a small number of minor accidents of our staff at our department stores, supermarkets, and restaurants and claims for personal or property damage and compensation paid to employees were immaterial. During the Track Record Period, we incurred approximately HK$1.1 million, HK$1.4 million and HK$1.2 million in relation to our annual costs of compliance with environmental regulations, and we expect to incur approximately HK$1.5 million in relation to our expected annual costs of compliance going forward.

Our operations are also subject to inspections by governmental authorities with regard to various safety and environmental issues. As advised by our PRC Legal Advisers, except those disclosed in the listing document, our Group is in compliance in all material respects with applicable governmental laws and regulations in the PRC. Except those disclosed in this listing document, our Group is in compliance in all material aspects with applicable laws and regulations in respect of our operations in Hong Kong.

## NON-COMPLIANCES

Pursuant to the Deed of Indemnity, Lifestyle has undertaken to indemnify and keep fully indemnified our Group, among others, against (i) any costs, claims, damages, expenses, losses, penalties, liabilities, actions and proceedings which a member of our Group may suffer from not having paid all requisite tax or obtained all relevant or necessary approvals, permits, licenses and/or certificates for conducting its businesses, whether in Hong Kong, the PRC or any part of the world, on or before the Listing Date, and (ii) any penalty which may be imposed on any member of our Group, or any costs, expenses and losses which such company may suffer in connection with such penalty, due to the failure of such company to observe any laws, regulations or rules in the PRC in this regard, on or before the Listing Date, including but not limited to the non-compliances as detailed below.

### Non-compliant incidents

During the Track Record Period, our Group has failed to comply with certain applicable laws and regulations in the PRC and Hong Kong, a summary of material and systemic non-compliances are set out below:

*Material non-compliances*

| Relevant section(s) of the ordinance/regulation | Summary of non-compliance incidents | Reason(s) of non-compliance and responsible personnel | Legal consequences, the potential maximum penalty and financial effect | Rectification actions |
|---|---|---|---|---|
| Section 9 of the WPCO | The water pollution control license pursuant to section 20 of the WPCO is required to be obtained before commencement of a new discharge of effluent that is subject to control under the WPCO.<br><br>Application for the water pollution control license had not been made in accordance with section 20 of the WPCO for Wa San Mai in Hong Kong which is managed and owned by Global Top before commencing the discharge of commercial trade effluents into the communal foul sewer in November 2006. We were made aware of such compliance issue during the preparatory stage of the Listing and application for such license was then made in January 2016. | The non-compliance was due to the inadvertent oversight of the division manager of interior project design who relied on the professional advice of a consultancy company employed by the Lifestyle Group to deal with all operating licenses. The interior project design team had not been advised by such consultancy company on the necessity to apply for the water pollution control license. | Pursuant to section 11(1) of the WPCO, the maximum penalty of Global Top for the non-compliance is, in the case of a first offence, a fine of HK$200,000, in the case of a subsequent offence, a fine of HK$400,000, and in the case of a continuing offence, an additional daily fine of HK$10,000.<br><br>Under Section 10A of the WPCO, if Global Top is convicted for the non-compliance, any director, manager, secretary or other person concerned in the management of Global Top (the "**Responsible Officer(s)**") who consented, connived, or was attributable to any neglect or omission commits the offence, and therefore may also be liable for the fine as stated above and imprisoned for six months. | Global Top made application for water pollution control license for Wa San Mai in Hong Kong in January 2016 and obtained the valid water pollution control license on 17 March 2016.<br><br>Our Group will seek proper advice from its professional advisers before commencing new companies' operation and comply with its internal control procedures prevailing from time to time.<br><br>For other internal control measures, please refer to the paragraph headed "Ongoing compliance" below. |

| Relevant section(s) of the ordinance/regulation | Summary of non-compliance incidents | Reason(s) of non-compliance and responsible personnel | Legal consequences, the potential maximum penalty and financial effect | Rectification actions |
|---|---|---|---|---|
| | Under section 20(3) of the WPCO, the EPD shall not grant the water pollution control license if it considers that:<br><br>(i) the discharge will endanger or is likely to endanger public health;<br><br>(ii) the discharge will be or is likely to be harmful to the health or safety of any person engaged in the operation or maintenance of a drainage or sewerage system;<br><br>(iii) the discharge will be or is likely to be harmful to a drainage or sewerage system; or<br><br>(iv) the attainment and maintenance of water quality objectives will not be or is not likely to be achieved.<br><br>Given that (a) the nature of discharge from Wa San Mai in Hong Kong was effluent arising from food preparation, cooking and utensils washing, and grease trap had been installed and (b) the EPD has granted the water pollution control license and has not exercised its power of refusal under section 20(3) of the WPCO, our Group considers that there had not been any environmental and health issues relating to this non-compliance. | | Our Group has been advised by our Hong Kong Legal Advisers that:<br><br>(i) prosecution is a matter within the discretion of the EPD and the Department of Justice. However, since (a) Global Top has already taken positive steps in applying for the outstanding water pollution control license in January 2016 and the license has been obtained on 17 March 2016; (b) Global Top has already disclosed to the EPD the period of non-compliance in the application for the water pollution control license; and (c) Global Top has not received any notice that the EPD has commenced any investigation against Wa San Mai in Hong Kong, our Hong Kong Legal Advisers, after taking into account the nature and seriousness of the non-compliance, are of the view that the chance of prosecution against Global Top or the Responsible Officers is relatively low;<br><br>(ii) even if there is any prosecution, with reference to the statistics from the EPD of the fine imposed for commercial premises, the potential fine, if levied on Global Top, with respect to the failure to obtain water pollution control license, is likely to be below HK$100,000; and<br><br>(iii) the chance of imprisonment for the Responsible Officers is remote. | |

| Relevant section(s) of the ordinance/regulation | Summary of non-compliance incidents | Reason(s) of non-compliance and responsible personnel | Legal consequences, the potential maximum penalty and financial effect | Rectification actions |
|---|---|---|---|---|
| Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》) implemented on 1 January 2008 and revised on 24 April 2015 | On October 2011, SY Foreversmart did not apply for amendment to the construction project planning permit for the following changes in construction of Lifu Plaza phase II, which may be regarded as not complying with the planning conditions as set forth on the construction project planning permit in construction work:<br><br>1. The construction area of civil defense project of Lifu Plaza phase II has been changed during construction.<br><br>2. The inner layout of Lifu Plaza phase II has been changed during construction.<br><br>3. The actual total construction area and construction area for commercial usage of Lifu Plaza phase II differ from those area as set forth in the construction project planning permit. | The division manager of interior project design was not aware of the relevant laws and regulations regarding such construction project in the PRC. | According to the Urban and Rural Planning Law of the PRC implemented on 1 January 2008 and revised on 24 April 2015, the developer shall conduct the construction in accordance with the planning conditions. If a construction project is carried out in violation of the requirements as set forth on the construction project planning permit, the competent department of urban and rural planning of the local people's government shall order the developer to suspend construction. If it is still possible for the developer to take measures to eliminate the adverse impact, the government authority shall order the developer to take rectification measures within a specified period of time and impose a fine of no less than 5% of the construction cost but no more than 10% thereof. If it is impossible to take measures to eliminate the adverse impact, the government authority shall order the developer to demolish the construction project within a specified time limit, or confiscate the project or the illegal gains in case the demolishment is impossible, and may also impose a fine of no more than 10% of the construction cost on the developer.<br><br>As confirmed by our Directors, the construction cost is approximately RMB1 billion. Accordingly, the potential maximum penalty based on 10% of the construction cost is approximately RMB100 million.<br><br>As at the Latest Practicable Date, we have not received any penalty imposed on us regarding the above non-compliance, and we are not aware of any potential risk of being penalised for the above non-compliance. As advised by our PRC Legal Advisers, according to their consultation with relevant official, being the Deputy Director of Shenyang Planning and Land Resources Bureau Shenhe Branch* (瀋陽市規劃和國土資源區瀋河分局) (the "**Deputy Director**"), which is a competent authority, during their visit the authority has been aware of the above non-compliance but does not require us to suspend construction or take rectification measures. | We have assigned Mr. Fang Yugui, who is our Chief Financial Officer, to engage local legal advisers and seek local legal advice in relation to the requirements for construction projects prior to commencement of any new projects. Mr. Fang Yugui will also periodically review whether any permits, approvals are required for such projects and apply for them when necessary. Mr. Fang Yugui will closely monitor any change in planning conditions in our future construction project, including our Daning Project, and will ensure that all required documentations regarding any amendments to construction project planning permit in the PRC will be prepared and filed on a timely basis. We will also seek PRC legal advice for our future construction project, including our Daning Project for proper filing in order to comply with the relevant requirements. We will also arrange training with our PRC Legal Advisers for relevant staff as and when necessary in order to ensure that the relevant staff is aware of relevant laws and regulations regarding construction projects in the PRC. For other internal control measures, please refer to the paragraph headed "Ongoing compliance" below. |

| Relevant section(s) of the ordinance/regulation | Summary of non-compliance incidents | Reason(s) of non-compliance and responsible personnel | Legal consequences, the potential maximum penalty and financial effect | Rectification actions |
|---|---|---|---|---|
| | | | Although the Deputy Director pointed out that his opinion should not be used as an official government opinion, as advised by our PRC Legal Advisers, in relation to PRC practices, senior local officials are usually aware that their response to PRC lawyers in their official capacity could be relied on by PRC lawyers in determining the position on legal matters. In this case, the Deputy Director's view could still be interpreted as the official view to a great extent even if it is said not to be treated as a formal opinion on behalf of Shenyang Planning and Land Resources Bureau Shenhe Branch. SY Foreversmart has also made relevant filings for completion of the Lifu Plaza phase II to the Shenyang Housing Registration Centre* (瀋陽市房屋登記證中心), and has been notified that SY Foreversmart has met the basic documentation requirements for registration, and the registration standard. Thus, based on the understanding of our PRC Legal Advisers, the opinions from Shenyang Housing Registration Centre and the Shenyang Planning and Land Resources Bureau Shenhe Branch are consistent.<br><br>As such, the risk that we are imposed fines for the above non-compliance is remote.<br><br>As confirmed by our PRC Legal Advisers, the construction project of Lifu Plaza phase II passed the construction quality and fire inspection and hence, complied with the relevant PRC legal requirements. Further, according to their interview with the staff of SY Foreversmart on 16 May 2016, there had been no safety issue since the construction project was put into operation. | |

| Relevant section(s) of the ordinance/regulation | Summary of non-compliance incidents | Reason(s) of non-compliance and responsible personnel | Legal consequences, the potential maximum penalty and financial effect | Rectification actions |
|---|---|---|---|---|
| Housing Construction and City Foundation Inspection Management Law of the PRC (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》), implemented on 1 January 2009 | In November 2014, SY Foreversmart failed to make the necessary filings to the county level government within 15 days after passing completion inspection of construction project of Lifu Plaza phase II. | The division manager of interior project design, was not aware of the relevant laws and regulations regarding such construction project in the PRC. | According to the Housing Construction and City Foundation Inspection Management Law of the PRC, within 15 days from passing completion acceptance and inspection procedure of a construction project, the developer shall make the necessary filings to the county level government. If the developer fails to do so, the relevant authority shall impose a deadline on the developer to make the necessary filings, and also impose a fine of RMB200,000 to RMB500,000. As at the Latest Practicable Date, we have not received any penalty imposed on us regarding the above non-compliance. We have also subsequently made the relevant filings regarding completion of the construction project. SY Foreversmart obtained the Filing Certificate for Construction Project Completion Inspection and Acceptance (the "Filing Certificate") of the construction project of Lifu Plaza phase II issued by Shenyang Urban and Rural Construction Committee on December 18, 2015. The Filing Certificate specified the date of completion inspection and acceptance of the construction project of Lifu Plaza phase II, which indicates that Shenyang Urban and Rural Construction Committee has been aware of the fact that SY Foreversmart failed to make the necessary filing within statutory period (i.e. within 15 days after passing inspection completion of construction project), and yet it still issued the Filing Certificate to SY Foreversmart without imposing any fines on SY Foreversmart for the above-mentioned non-compliance. As advised by our PRC Legal Advisers, according to their consultation with the Administrative Approval Officer of Shenyang Urban and Rural Construction Committee who was in charge of reviewing the construction project of Lifu Plaza phase II for issuance of the Filing Certificate during their visit to Shenyang Urban and Rural Construction Committee, the Committee's issuance of the Filing Certificate to SY Foreversmart has indicated that it has decided not to impose fines on SY Foreversmart for its failure in filing for completion acceptance and inspection within statutory period, and it will not impose such fines to SY Foreversmart in the future. As such, our PRC Legal Advisers are of the view that the risk that we are imposed with fines for the above non-compliance is remote. Furthermore, our Directors are of the view that in the event that we will be penalised, as the maximum penalty would be RMB500,000, it would not have a material adverse effect on our operations. | In December 2015, SY Foreversmart had subsequently made the necessary filings regarding completion of the construction project of Lifu Plaza phase II. We have assigned Mr. Fang Yugui, who is our Chief Financial Officer, to engage local legal advisers and seek local legal advice in relation to the requirements for construction projects prior to commencement of any new projects. Mr. Fang Yugui will also periodically review whether any permits, approvals are required for such projects and apply for them when necessary. Mr. Fang Yugui will closely monitor the progress of our future construction project, including our Daning Project, and will ensure that all required documentations regarding completion inspection will be prepared and filed on a timely basis before commencement of our department store operations. We will also seek PRC legal advice for our future construction project, including our Daning Project for proper filing in order to comply with the relevant requirements. We will also arrange training with our PRC Legal Advisers for relevant staff as and when necessary in order to ensure that the relevant staff is aware of relevant laws and regulations regarding construction projects in the PRC. For other internal control measures, please refer to the paragraph headed "Ongoing compliance" below. |

| Relevant section(s) of the ordinance/regulation | Summary of non-compliance incidents | Reason(s) of non-compliance and responsible personnel | Legal consequences, the potential maximum penalty and financial effect | Rectification actions |
|---|---|---|---|---|
| Construction Quality Management Regulation of the PRC (《中華人民共和國建設工程質量管理條例》), implemented on 30 January 2000 | SY Foreversmart obtained local government's approval to commence trial business operation for a period of 6 months starting from 19 October 2013. The local government required SY Foreversmart to complete construction project completion acceptance and inspection procedures within the above 6-month period but SY Foreversmart failed to do so. Nevertheless, SY Foreversmart has completed the construction completion acceptance and inspection procedures of Lifu Plaza phase II in December 2015. | The division manager of interior project design, was not aware of the relevant laws and regulations regarding such construction project in the PRC. | According to the Construction Quality Management Regulation of the PRC, a construction property cannot be used before satisfactory inspection by the relevant authority, failure of which a fine of 2% to 4% of the relevant construction cost shall be imposed. A special approval had been obtained from the local government on 10 October 2013 that the construction project completion acceptance and inspection procedures can be temporarily substituted by the fire safety inspection approval, which had been obtained previously. We have obtained the relevant environmental inspection approval from the relevant Shenyang governmental authorities in August 2013, and also obtained approval by the local construction quality supervision authority on Lifu Plaza phase II in February 2015. Furthermore, we have made the relevant filings of completion of the construction in December 2015, and also ceased our operations in Lifu Plaza phase II at the same time. As advised by our PRC Legal Advisers, under a typical case where the relevant authority decides to impose fines for a construction project, the issuance of the certificate for completion acceptance and inspection procedures will usually subject to a condition precedent that fines shall be paid first. After the issuance of the certificate for completion acceptance and inspection procedures, it is unlikely that fines will be imposed thereafter. As at the Latest Practicable Date, we have not received any penalty imposed on us regarding the above non-compliance. As such, our PRC Legal Advisers are of the view that the risk that we are imposed fines for the above non-compliance is remote.<br><br>As confirmed by our Directors, the construction cost is approximately RMB1 billion. Accordingly, the potential maximum penalty based on 4% of the construction cost is approximately RMB40 million. | We have ceased our operations of the department store in Lifu Plaza phase II in December 2015, and we have made relevant filing for completion of the Lifu Plaza phase II in December, 2015. We have assigned Mr. Fang Yugui, who is our Chief Financial Officer, to engage local legal advisers and seek local legal advice in relation to the requirements for construction projects prior to commencement of any new projects. Mr. Fang Yugui will also periodically review whether any permits, approvals are required for such projects and apply for them when necessary. Mr. Fang Yugui will closely monitor the progress of our future construction project, including our Daning Project, and will ensure that all required documentations regarding completion inspection will be prepared and filed on a timely basis before commencement of our department store operations. We will also seek PRC legal advice for our future construction project, including our Daning Project for proper filing in order to comply with the relevant requirements. We will also arrange training with our PRC Legal Advisers for relevant staff as and when necessary in order to ensure that the relevant staff is aware of relevant laws and regulations regarding construction projects in the PRC. For other internal control measures, please refer to the paragraph headed "Ongoing compliance" below. |

*Systemic non-compliance*

| Relevant section(s) of the ordinance/regulation | Summary of non-compliance incidents | Reason(s) of non-compliance and responsible personnel | Legal consequences, the potential maximum penalty and financial effect | Rectification actions |
|---|---|---|---|---|
| Administrative Measures for Commodity House Leasing of the PRC (《商品房屋租賃管理辦法》) implemented on 1 February 2011 | Certain of our subsidiaries had entered into lease agreements in the PRC, as landlords or tenants, which are not registered with the relevant PRC authorities. | The division manager of administrative division and assistant department manager of sales division were not aware of the relevant laws and regulations regarding such registration of lease agreement needed in the PRC. | According to the Administrative Measures for Commodity House Leasing of the PRC implemented on 1 February 2011, lease agreement becomes effective upon signing, but has to be registered with the relevant real estate administration authority at the municipality or county level within 30 days after its execution. Failure to comply may result in an order from the relevant PRC county or city authority to order the relevant registration to be made. If a registration is not made upon receiving such order from the relevant authority, a fine of RMB1,000 to up to RMB10,000 may be imposed. As advised by our PRC Legal Advisers, the aggregate maximum potential liabilities arising from all the non-compliance lease agreements would be RMB430,000. On July 2009, the Supreme People's Court of the PRC issued an interpretation which clarifies that courts should not uphold the claim that a building leasing contract is invalid due to the failure of registration; if parties agreed that the building leasing contract shall take effect upon its registration, such agreement shall prevail. As advised by our PRC Legal Advisers, fine will only be imposed in the case that rectification has been ordered by the relevant authorities and the relevant subsidiaries still fail to rectify within a specified time period. As such, our PRC Legal Advisers are of the view that the non-registration of the lease agreements shall not affect their validity, and that the risk that we are imposed fines for the above non-compliance is remote. Our Directors are also of the view that in the event that a fine is imposed, it shall not have any material adverse effect on our financial conditions. | As advised by out PRC Legal Advisers, according to the relevant laws and regulation in the PRC, it is the common responsibility for both the landlords and tenants to register the lease agreements which they have entered into with the relevant PRC authorities. In relation to the lease agreements entered into between our Group and third parties, we are not able to rectify the non-compliances since the counterparty is not willing to cooperate with us in the rectification as such rectification cannot be done unilaterally. In relation to the lease agreements entered into between the companies of our Group, we will complete the registration with the relevant PRC authorities as soon as possible. |

During the Track Record Period and up to the Latest Practicable Date, our Group has not been charged or penalised for the above non-compliance incidents, and has not made any provision for the non-compliance incidents in our financial statements, as no provision was considered necessary. Our Directors expect that the non-compliance incidents will not have any material adverse operational and financial impact on our Group.

Given the nature and the circumstances giving rise to the above non-compliance incidents, which were principally due to lack of relevant legal knowledge and professional advice, our Directors are of the view that none of these incidents have any material adverse impact on our business and operations and none of these incidents impugn the competence of our Directors.

**Ongoing compliance**

It is the responsibility of our Board to ensure that we maintain an effective internal control system to safeguard our Shareholders' investment and our assets at all times. In order to prevent future non-compliance and improve our corporate governance, we have adopted or intend to adopt the following measures:

1. we are currently in the process of developing various internal approval policies and procedures. In order to further enhance our internal control measures, we have adopted an internal audit guideline by the end of May 2016, which provides detailed internal control procedures, so as to ensure our compliance with the Listing Rules and the relevant laws and regulations;

2. Mr. Fang Yugui, our Chief Financial Officer, will oversee the financial reporting and internal control procedures in accounting and financial matters to ensure compliance with the Listing Rules and all relevant laws and regulations;

3. we will engage and will continue to appoint external professional advisers, including auditors, legal advisers and other advisers to render professional advice as to compliance with the statutory requirements applicable to our Group from time to time after Listing;

4. in addition, to further strengthen the knowledge of our Directors as to the relevant laws and regulations and Listing Rules, our Directors have attended a training in this regards provided by our Hong Kong Legal Advisers on 18 March 2016;

5. after Listing, we also plan to engage legal advisers to provide training to our Directors on the latest developments of various compliance matters applicable to our Group including the Listing Rules and relevant laws and regulations, from time to time, as and when needed; and

6. we have also appointed KGI Capital Asia Limited as our compliance adviser upon Listing to advise our Directors and management team on matters relating to the Listing Rules.

**Views of our Directors and the Sponsor**

Mr. Fang Yugui joined our Group in 2012 and has worked as finance division manager, finance division senior manager and is currently the chief financial officer of our Group. Mr. Fang is in charge of the finance division and the information technology division of our Group. Through his over 20 years' working experience in the finance and accounting area, he has developed his professional internal audit knowledge and management skills related to governance, business processes, risk management, and technology continuity in the PRC. With his engagement with our Group since 2012, Mr. Fang has gained extensive exposure in the department store industry and our Directors are of the view that Mr. Fang possesses sufficient industrial related knowledge which allows him to effectively and competently oversee the operations of our Group. Mr. Fang will also consult and seek advice from relevant qualified professionals as and when necessary. Furthermore, given the segregation in operations between the finance division and other operation divisions of our Group, our Directors believe this allows Mr. Fang to be able to oversee the operation procedures independently. Based on the reasons and factors set out above, our Directors are of the view that Mr. Fang Yugui is competent and qualified to oversee the operational procedures. The Sponsor concurs with such view.

Our Directors are of the view that we have taken all reasonable steps to enhance our internal control system including the above measures to prevent future recurrence of non-compliance incidents and other steps as recommended by our internal control consultant to enhance our internal control system. In addition, taking into account that (i) the non-compliance incidents disclosed above were principally due to the lack of relevant legal knowledge and professional advice; (ii) the above measures taken by our Group and our enhanced internal control measures; (iii) the ongoing monitoring and supervision with the assistance and advice of profession external advisers where required; (iv) the fact that, as confirmed by our Directors, the non-compliance incidents did not involve fraud or dishonesty on the part of any of the Directors; and (v) upon discovery of the non-compliance incidents disclosed above, our Directors, with assistance from relevant professional advisers, have taken all reasonable rectification actions to prevent further non-compliance and any possible recurrence of such incidents, our Directors are of the view that our enhanced internal control measures are adequate and effective and that the non-compliance incidents do not have material adverse impact on the suitability of our Directors under Rules 3.08, 3.09 and 8.15 of the Listing Rules and our suitability for listing under Rule 8.04 of the Listing Rules. The Sponsor concurs with such views.

### Litigation

From time to time, we may also become involved in legal proceedings (primarily customer claims, labour claims and supplier claims) which are common in the industry and in the ordinary course of business. Our Directors confirmed that, during the Track Record Period, none of these proceedings, individually or in aggregate had, and there are no legal proceedings or arbitrations, pending or threatened, against us (including but not limited to labour disputes) or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

## INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, members of our Group are registrants of certain domain names. In addition, we have registered trademarks under class 35, 36, and 43 in the PRC. For further details, please refer to the Appendix V to this listing document.

During the Track Record Period, we have received a few infringement claims from certain third parties who alleged that certain merchandise sold in our department stores infringed their intellectual property rights. For avoiding unnecessary disputes, we agreed to withdraw or procure our concessionaire to withdraw the sale of such merchandise in our department stores. No damages were required to be paid by us in connection with such claims during the Track Record Period.

## PROPERTIES

As at the Latest Practicable Date, our three department stores were located in properties owned or leased by our Group. As at the Latest Practicable Date, our three department stores in operation occupy an aggregate area of approximately 303,000 sq.m..

### Owned properties

As of the Latest Practicable Date, we held land use rights for four land parcels with an aggregate site area of approximately 131,031 sq.m., two of which the land and/or buildings on top are subject to encumbrances. As advised by our PRC Legal Advisers, we are entitled to legally occupy and use these parcels of land (including the encumbered lands) within the scope of use specified in the land use right certificate and in accordance with relevant PRC laws and regulations regarding the use of land. Our Suzhou Jiuguang and Dalian Jiuguang are located in two of the above land parcels. Shenyang Jiuguang was also located in one of the above land parcels but it was closed down in December 2015. As at the Latest Practicable Date, we are still in the process of obtaining a property certificate for the Shenyang property. As advised by our PRC Legal Advisers, other than the Shenyang property, we possess valid title certificates in respect of our properties which we are entitled to occupy and use. Furthermore, one of the above land parcels was the location of our Daning Project in Jing'an, Shanghai, where construction work had commenced in December 2013. Our Daning Project will feature a commercial complex comprising a sizeable retail premises, office blocks and our second department store under the Jiuguang Brand in Shanghai. The plot size is about 50,153 sq.m. with a gross floor area of about 346,733 sq.m.. The completion date of such project is targeted to be in December 2018.

### Leased properties

As of the Latest Practicable Date, we rented 20 properties in the PRC from Independent Third Parties located in Shanghai and Dalian, the PRC respectively, for office, staff quarters and commercial uses. The total gross floor area is approximately 9,070.0 sq.m., with the gross floor area of each property ranges from 20 sq.m. to 7,433 sq.m.. The lease terms range from 1 to 15 years with the latest expiry in 2028. In respect of office, the annual rent is RMB22,000; in respect of staff quarters, the monthly rent ranges from around RMB6,000 to around RMB14,000 per unit; and in respect of the property for commercial use, the current monthly rent is around RMB743,300.

We rented one property in Hong Kong and will also rent another property in Hong Kong from companies of the Remaining Lifestyle Group, with an aggregate floor area of approximately 11,842 sq.ft., for restaurant and office. We have also entered into lease agreements with Shanghai Joinbuy and companies within the Lifestyle Properties Group in Shanghai and Shenyang, the PRC. For further details of our arrangement regarding the two leased properties in Hong Kong and leased properties in the PRC, please refer to the section headed "Continuing connected transactions" of this listing document.

The table below sets forth the details of our 20 properties in the PRC we rented from the Independent Third Parties:

| | Date of the tenancy agreement | Location | Purpose | Area (sq.m) | Term of the tenancy | Rent |
|---|---|---|---|---|---|---|
| 1. | Not specified | Shanghai, the PRC | Operational site | 20.0 | 28 February 2012 to 27 February 2017 | RMB12,000/year |
| 2. | Not specified | Shanghai, the PRC | Office | 30.3 | 1 March 2015 to 28 February 2018 | RMB22,000/year |
| 3. | Not specified | Shanghai, the PRC | Commercial | 7,433.0 | 17 June 2013 to 16 June 2028 | Progressive rate, currently at RMB743,300/month |
| 4. | 17 March 2014 | Dalian, the PRC | Residential | 106.7 | 20 March 2014 to 19 September 2016 | RMB 6,000/month |
| 5. | 15 July 2015 | Dalian, the PRC | Residential | 99.0 | 1 August 2015 to 31 July 2016 | RMB 6,500/month |
| 6. | 13 October 2015 | Shanghai, the PRC | Residential | 95.4 | 17 October 2015 to 16 October 2016 | RMB 7,500/month |
| 7. | 23 October 2015 | Shanghai, the PRC | Residential | 110.3 | 26 October 2015 to 25 October 2016 | RMB 9,800/month |
| 8. | 28 September 2015 | Shanghai, the PRC | Residential | 96.2 | 10 October 2015 to 9 October 2016 | RMB 8,000/month |
| 9. | Not specified | Shanghai, the PRC | Residential | 68.5 | 3 October 2015 to 2 October 2016 | RMB 9,700/month |
| 10. | 16 February 2016 | Shanghai, the PRC | Residential | 30.7 | 3 March 2016 to 2 March 2017 | RMB 7,500/month |
| 11. | 21 January 2016 | Shanghai, the PRC | Residential | 97.4 | 9 February 2016 to 8 February 2018 | RMB 8,800/month |
| 12. | 13 October 2015 | Shanghai, the PRC | Residential | 72.6 | 1 January 2016 to 31 December 2017 | RMB 6,800/month |
| 13. | 17 June 2015 | Shanghai, the PRC | Residential | 75.2 | 1 August 2015 to 31 July 2016 | RMB 9,000/month |
| 14. | 10 August 2015 | Shanghai, the PRC | Residential | 116.6 | 22 September 2015 to 21 September 2016 | RMB7,800/month |
| 15. | 4 June 2015 | Shanghai, the PRC | Residential | 106.3 | 30 August 2015 to 29 August 2016 | RMB9,500/month |
| 16. | Not specified | Shanghai, the PRC | Residential | 100.4 | 1 October 2015 to 30 September 2016 | RMB8,450/month |
| 17. | 28 August 2015 | Shanghai, the PRC | Residential | 75.2 | 4 October 2015 to 3 October 2016 | RMB8,950/month |
| 18. | 15 October 2015 | Shanghai, the PRC | Residential | 89.3 | 16 October 2015 to 15 October 2016 | RMB14,000/month |
| 19. | 20 September 2015 | Shanghai, the PRC | Residential | 141.1 | 20 October 2015 to 19 October 2016 | RMB12,000/month |
| 20. | 21 April 2015 | Shanghai, the PRC | Residential | 105.8 | 21 April 2015 to 20 April 2017 | RMB12,820/month |

Among the 20 leased properties in the PRC we rented from the Independent Third Parties, tenancy agreements of 16 leased properties will expire in one year after the Latest Practicable Date. The total gross floor area for these 16 leased properties is 1,436.7 sq.m.. Except one leased property with gross floor area being 20 sq.m. is for operational use, the remaining 15 leased properties we rented from the Independent Third Parties of which the tenancy agreements will expire in one year after the Latest Practicable Date are used for accommodation of our employees.

We have not commenced negotiations with the landlords on renewal of tenancy agreements of these 16 leased properties. To the knowledge of our Directors, there are no substantial obstacles which will impede renewal of these tenancy agreements. Even if we fail to renew the tenancy agreements for the these 16 leased properties, there is no substantial obstacle for us to find substitute leased properties, and it shall not have any material adverse effect on our operation.

Apart from the leased properties abovementioned, an affiliate of a 40% shareholder of two non-wholly owned subsidiaries of our Company has also granted use of (i) a property situated in Shijiazhuang, the PRC with a floor area of 2,808.0 sq.m. to Yishang Trading for office use for free for a period of 10 years commencing from 30 October 2013 and (ii) a property situated in Shijiazhuang, the PRC with a floor area of 2,822.5 sq.m. to Hebei Xuyuan for office use for free for a period of 10 years commencing from 19 August 2015.

We lease the space for the operation of Shanghai Jiuguang from Shanghai Joinbuy. The lease will expire in September 2024, with an option to renew for a further 10 years. The store is located in Nanjing Xi Road, a major business centre in Shanghai. The store has a total gross floor area of approximately 92,000 sq.m..

Certain areas of Shanghai Jiuguang and our Daning Project were designated as civil air defense areas, the design planning proposals of which have been approved by the civil air defense authorities of the PRC government. For the related risk in this regard, please refer to the section headed “Risk factors” of this listing document.

**Material property analysis**

According to our combined statements of financial position set out in Appendix I to this listing document, our Directors confirm that except for the Shenyang Land and the property erected on top, and our Daning Project, no single property interest that forms part of our non-property activities has carrying amount of 15% or more of our Groups’ total assets as at 31 December 2015.

As such and pursuant to Rule 5.01A of the Listing Rules, a valuation report of the Shenyang Land and our Daning Project is included in Appendix III to this listing document.

## DIRECTORS

Our Board consists of five Directors, including one executive Director, one non-executive Director and three independent non-executive Directors. The table below shows the brief particulars of our Directors:

| Name | Age | Position | Date of appointment as Director/Time of joining the Lifestyle Group (if applicable) | Roles and responsibilities in our Group |
|---|---|---|---|---|
| Mr. Thomas Lau (劉鑾鴻先生) | 62 | Chairman, Chief Executive Officer and executive Director | 4 January 2016/ May 2003 *(Note)* | Setting overall strategic plan and development of our Group; implementing our Board's decisions; monitoring and supervising our Group's overall performance; ensuring that adequate capital and managerial resources are available to carry out business plans adopted from time to time; setting and monitoring directions, targets, and plans for management; reporting to our Board on our Group's performance; and serving on the remuneration committee and nomination committee |
| Ms. CHAN Chor Ling, Amy (陳楚玲小姐) | 54 | Non-executive Director | 17 March 2016/ March 2005 | Focusing principally on giving strategic advices and recommendations on the business plans and operations of our Group through regular attendance and participation in Board meetings |

| Name | Age | Position | Date of appointment as Director/Time of joining the Lifestyle Group (if applicable) | Roles and responsibilities in our Group |
|---|---|---|---|---|
| Ms. CHEUNG Mei Han (張美嫻小姐) | 50 | Independent non-executive Director | 24 June 2016 | Leveraging their skills, expertise and varied backgrounds and qualifications and regularly attending and participating in meetings of our Board to bring an independent judgement on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group; taking the lead where potential conflicts of interest arise; and serving on the audit committee, the remuneration committee and the nomination committee |
| Mr. CHEUNG Yuet Man, Raymond (張悅文先生) | 61 | Independent non-executive Director | 24 June 2016/ March 2004 | |
| Mr. LAM Kwong Wai (林光蔚先生) | 60 | Independent non-executive Director | 24 June 2016 | |

*Note:* Mr. Thomas Lau was appointed as the general manager of Sogo Hong Kong and its group commencing in May 2003. Prior to such appointment, Mr. Thomas Lau had been responsible for the overall strategic development, planning and policy making of the retailing business of the Lifestyle Group since the acquisition of interests in Sogo Hong Kong by the consortium formed by Mr. Thomas Lau, Mr. Lau Luen Hung, Joseph and Chow Tai Fook Enterprises Limited in May 2001.

## Executive Director

**Mr. LAU Luen Hung Thomas (劉鑾鴻先生)**, aged 62, was appointed as an executive Director on 4 January 2016. He is also the Chairman of our Board, our Chief Executive Officer, the chairman of our nomination committee, a member of our remuneration committee and the director of certain subsidiaries of our Group. Mr. Thomas Lau, as the Chairman of our Board, is responsible for setting overall strategic plan and development of our Group. He, as our Chief Executive Officer, in addition to assisting in formulating our Group's strategic plan, is responsible for implementing our Board's decisions, monitoring and supervising our Group's overall performance, ensuring that adequate capital and managerial resources are available to carry out business plans adopted from time to time, setting and monitoring directions, targets, and plans for management, and reporting to our Board on our Group's performance. Mr. Thomas Lau was awarded a Bachelor of Arts degree by the University of Toronto in June 1975 and a Bachelor degree of Commerce and a Master degree of Business Administration by the University of Windsor, Canada in October 1976 and May 1978 respectively. Mr. Thomas Lau has substantial entrepreneurial experience in department store retailing as well as restaurant and supermarket business.

Mr. Thomas Lau became the managing director of Lifestyle in January 2004 and has been re-designated as the non-executive director and the chairman of Lifestyle since 28 June 2016. He was an independent director of AutoChina International Limited, a company listed on NASDAQ until cessation of his office on 29 December 2011. He has been the chairman and a non-executive director of Lifestyle Properties, since August 2013. He is currently a member of the Chinese People's Political Consultative Conference Shanghai Committee and a member of the board of directors of Shanghai Jiao Tong University, the PRC.

In 2006, the Insider Dealing Tribunal of Hong Kong ("**IDT**") found that Mr. Thomas Lau's trading of shares of Asia Orient Holdings Limited, a company listed on the Stock Exchange, between 14 and 20 September 1999 constituted insider dealing. Mr. Thomas Lau was ordered not to act as a director of Chinese Estates Holdings Limited (stock code: 127) ("**Chinese Estates**") or CNNC International Limited ("**CNNC**") (formerly known as United Metals Holdings Limited) (stock code: 2302), both being companies listed on the Stock Exchange, for a period of 12 months commencing from 22 December 2006 without the leave of the court. He was also ordered to pay the government the relevant profit gained, a penalty and the inquiry expenses. There is no outstanding order against Mr. Thomas Lau since 22 December 2007.

Several subsidiaries of Chi Cheung Investment Co., Ltd. ("**Chi Cheung**") (later known as LT Holdings Limited from June 2013 to June 2014, and now known as LT Commercial Real Estate Limited) (stock code: 112), the shares of which are listed on the Stock Exchange, namely Winner Ways Limited, Best Funds Investment Limited, Unioncorp Limited, Right Joint International Limited, Cosmos Win Investment Limited, Fortune Trinity Limited, Grand Asia Investment Limited, Homewell Investment Limited and Super Culture Limited, had been put into creditors' voluntary winding up while Mr. Thomas Lau was one of their respective directors. Mr. Thomas Lau, who was then an executive director of Chinese Estates, was appointed as a director of the aforesaid subsidiaries of Chi Cheung on 20 November 2000 after Chinese Estates, as the investor under the restructuring, became the then Controlling Shareholder of Chi Cheung upon completion of the restructuring of Chi Cheung group through a scheme of arrangement on 20 November 2000. The said restructuring of Chi Cheung group was a rescue plan reached against the background of high debt level and liquidity difficulties of Chi Cheung group at the material time.

Before Chinese Estates became the then Controlling Shareholder of Chi Cheung, the financial position of Chi Cheung group had already been unsatisfactory. Mr. Thomas Lau's appointment as a director of the aforementioned subsidiaries of Chi Cheung was to represent the interest of Chinese Estates in these companies following its acquisition of a controlling stake in Chi Cheung and Mr. Thomas Lau had not been involved in the affairs of these companies which ultimately put them into financial difficulties and liquidation. Liquidation of the said subsidiaries of Chi Cheung commenced during the period from 2001 to 2005 and all of them have been dissolved.

Besides, a winding up order was made against an associated company of Chinese Estates, Victory Mark Investment Limited ("**Victory Mark**"), in 2004 upon the petition of a creditor within 12 months after Mr. Thomas Lau ceased to act as one of its directors. The debt which was the subject of the petition was a sum of approximately HK$3,960,000, being the petitioner's legal costs and disbursements in a litigation against Victory Mark involving certain defects in a flat purchased by the petitioner in a building for which Victory Mark was the developer, plus interest thereon. Mr. Thomas Lau was not a director of Victory Mark when the building was under development by Victory Mark or when the flat was sold to the petitioner. No claims have been brought against Mr. Thomas Lau personally in respect of the liquidation of the subsidiaries of Chi Cheung and the associated company of Chinese Estates as mentioned above.

Our Company and our Directors consider that Mr. Thomas Lau is suitable for acting as a Director notwithstanding that he was involved in an insider trading of a listed company in 1999 and was ordered not to act as a director of Chinese Estates or CNNC for a period of 12 months commencing from 22 December 2006. They form such views for the following reasons: (i) Mr. Thomas Lau has much experience as a director as demonstrated by his involvement as directors of various listed companies within or outside Hong Kong; and (ii) notwithstanding the IDT case, according to the orders made against Mr. Thomas Lau by IDT, Mr. Thomas Lau was only ordered not to act as a director of Chinese Estates or CNNC, both being companies listed on the Stock Exchange, for a period of 12 months commencing from 22 December 2006 without the leave of the court. Such order had long been served and fulfilled and such order was not a general order prohibiting Mr. Thomas Lau from acting as a director of listed companies and, in particular, such order did not prohibit Mr. Thomas Lau from acting as a director of Lifestyle. For the above reasons, the Sponsor concurs with our Company's and our Directors' view that Mr. Thomas Lau is suitable to act as a Director notwithstanding that he was involved in an insider trading of a listed company in 1999 and ordered not to act as a director of Chinese Estates or CNNC for a period of 12 months commencing from 22 December 2006.

**Non-executive Director**

**Ms. CHAN Chor Ling, Amy (陳楚玲小姐)**, aged 54, was appointed as a non-executive Director on 17 March 2016. Ms. Chan focuses principally on giving strategic advices and recommendations on the business plans and operations of our Group through regular attendance and participation in Board meetings. Ms. Chan first joined the Lifestyle Group in March 2005 as the senior division manager of the property division. She was later promoted to the head of the new project division before she left the Lifestyle Group and joined Lifestyle Properties on 26 August 2013. Ms. Chan was an executive director of Lifestyle Properties from 26 August 2013 to 31 March 2015. She was primarily responsible for the administration aspects of the Lifestyle Properties Group and headed the finance department and human resources department as the director of administration of the Lifestyle Properties Group.

Ms. Chan obtained the degree of Master of Business Administration from University of Leicester, the United Kingdom as well as the degree of Bachelor of Laws from University of Wolverhampton, the United Kingdom in July 1999 and March 2001 respectively through long distance learning. She worked as an assistant company secretary, company secretary and then the group company secretary of Chinese Estates from 1987 to 1991. She then served as the company secretary of Wo Kee Hong (Holdings) Limited (now known as Auto Italia Holdings Limited, a listed public company in Hong Kong, stock code: 720) from 1991 to 1993. From 1993 to 1998, Ms. Chan rejoined Chinese Estates as its head of business development department and was responsible for supervising and overseeing the Chinese Estates group's property matters in the PRC which included various property investment and development projects in the PRC.

As at the Latest Practicable Date, Ms. Chan holds 297,000 Lifestyle Shares and 1,050 shares in the share capital of Lifestyle Properties.

**Independent non-executive Directors**

**Ms. CHEUNG Mei Han (張美嫻小姐)**, aged 50, was appointed as an independent non-executive Director on 24 June 2016. She is also a member of each of our audit committee, remuneration committee and nomination committee. She is a practicing solicitor in Hong Kong. Ms. Cheung obtained the degree of Bachelor of Laws of the University of London through long distance learning and the Postgraduate Certificate in Laws of the University of Hong Kong in August 2003 and June 2004, respectively, and has been a qualified solicitor in Hong Kong since September 2006. She is also an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries since December 1990 and August 1994 respectively.

Ms. Cheung has more than 25 years of experience in the company secretarial sector. From July 1987 to March 1989, she worked as a company secretarial assistant in Spicer & Oppenheim. She then joined Evergo Holdings Company Limited and worked as a secretarial officer, senior secretarial officer and assistant company secretary from March 1989 to March 1994. After serving as the assistant to deputy managing director in Ringo Trading Limited from January 1995 to May 1998, she was then transferred to work as the manager of the company secretarial division in one of its subsidiaries, Continental Mariner Investment Company Limited (later known as Poly (Hong Kong) Investments Limited and now known as Poly Property Group Co., Limited) (stock code: 119), the shares of which are listed on the Stock Exchange, from June 1998 to October 1999. She had successively held the post of company secretary in New World China Enterprises Projects Limited, a subsidiary of New World Development Company Limited (stock code: 17), from October 1999 to June 2000. She then served as the company secretary in PingAn.com Limited from June 2000 to May 2001, and the division manager of company secretarial division in Sogo Hong Kong from June 2001 to March 2003. Ms. Cheung has pursued the legal career in the past 10 years and is currently a solicitor of S.Y. Wong & Co, a law firm in Hong Kong.

**Mr. CHEUNG Yuet Man, Raymond (張悅文先生)**, aged 61, was appointed as an independent non-executive Director on 24 June 2016. He is also a member of each of our audit committee, remuneration committee and nomination committee. He is an entrepreneur and has over 10 years of experience in the department store industry and has been an independent non-executive director of Lifestyle from 5 March 2004 to 14 April 2014. He was also an independent non-executive director of Chinese Estates from December 1993 to February 2002, He has over 20 years of experience in the textile and garment manufacturing industries and served as a director of the 15th Board of Directors of the Federation of Hong Kong Garment Manufacturers in the year of 1992.

**Mr. LAM Kwong Wai (林光蔚先生)**, aged 60, was appointed as an independent non-executive Director on 24 June 2016. He is also the chairman of our audit committee and remuneration committee and a member of our nomination committee. He obtained the degree of Master of Business Administration from the University of Warwick, United Kingdom in July 1992. Mr. Lam joined the Chinese Estates group, which principal activities include, among others, property investment (including investment in retail properties) and development, in 1989 and has been an executive director of Chinese Estates since 2012. He is also the group financial controller and the company secretary of Chinese Estates. Mr. Lam was a non-executive director of G-Prop (Holdings) Limited (now known as Common Splendor International Health Industry Group Limited) (stock code: 286)) from 14 August 2012 to 7 March 2013 and LT Commercial Real Estate Limited (formerly known as Chi Cheung Investment Company, Limited (up to June 2013) and LT Holdings Limited (up to June 2014)) (stock code: 112) from 7 February 2013 to 6 February 2016, all of which are companies listed on the Stock Exchange. He has over 37 years of experience in auditing, finance and accounting industries. He has been an associate member of Hong Kong Society of Accountants (now known as Hong Kong Institute of Certified Public Accountants) since May 1983.

Mr. Lam was a director of Lifestyle for around three months from 5 January 2004 to 25 March 2004 shortly prior to the listing of Lifestyle in 2004, and he was a director of certain subsidiaries of the Lifestyle for various periods between March 2001 and January 2005. Mr. Lam was also a director of Real Reward Limited (which was a Controlling Shareholder of Lifestyle prior to December 2014) and its several subsidiaries for various periods between March 2001 and December 2004 and a director of United Goal from March 2001 to December 2004.

Several subsidiaries of Chi Cheung (stock code: 112), the shares of which are listed on the Stock Exchange (namely, Unioncorp Limited, Right Joint International Limited, Cosmos Win Investment Limited, Fortune Trinity Limited, Grand Asia Investment Limited, Homewell Investment Limited and Super Culture Limited) had been put into creditors' voluntary winding up while Mr. Lam was one of their respective directors. Mr. Lam, who was then the senior executive of Chinese Estates, was appointed as a director or an alternate director to Mr. Thomas Lau of the aforesaid subsidiaries of Chi Cheung between June and October 2001 after Chinese Estates, as the investor under the restructuring, became the then Controlling Shareholder of Chi Cheung upon completion of the restructuring of Chi Cheung group through a scheme of arrangement on 20 November 2000. The said restructuring of Chi Cheung group was a rescue plan reached against the background of high debt level and liquidity difficulties of Chi Cheung group at the material time.

Before Chinese Estates became the then Controlling Shareholder of Chi Cheung, the financial position of Chi Cheung group had already been unsatisfactory. Mr. Lam's appointment as a director or an alternate director to Mr. Thomas Lau of the aforementioned subsidiaries of Chi Cheung was to represent the interest of Chinese Estates in these companies following its acquisition of a controlling stake in Chi Cheung and Mr. Lam had not been involved in the affairs of these companies which ultimately put them into financial difficulties and liquidation. Liquidation of the said subsidiaries of Chi Cheung commenced during the period from 2001 to 2002 and all of them have been dissolved on 7 December 2002.

As at the Latest Practicable Date, Mr. Lam holds 88,000 shares in the share capital of Lifestyle Properties.

Please refer to the sub-section headed "Further information about Directors and substantial shareholders — Particulars of service contract and letters of appointment" in Appendix V to this listing document for details of the proposed length of service of each of our Directors with our

Company and the emoluments of our Directors. The emoluments of each Director are determined by our Board with reference to his/her previous experience and prevailing market practices.

Save as disclosed in the sub-section headed "Further information about Directors and substantial shareholders — Disclosure of interests or short position of Directors and chief executive of our Company in the shares, underlying shares or debentures of our Company and our associated corporations" in Appendix V to this listing document, each of our Directors did not have any interest in the Shares of our Company within the meaning of Part XV of the SFO.

Save as disclosed above and in the sub-section headed "Further information about Directors and substantial shareholders — Disclosure of interests or short position of Directors and chief executive of our Company in the shares, underlying shares or debentures of our Company and our associated corporations" in Appendix V to this listing document, each of our Directors (i) did not hold other positions in our Group as at the Latest Practicable Date; (ii) had no other relationships with any Directors, senior management or substantial or controlling shareholder of our Company as at the Latest Practicable Date; and (iii) did not hold any directorships in any other publicly listed companies in the last three years prior to the Latest Practicable Date.

Save as disclosed in this listing document, our Board is not aware of any other information which is required to be disclosed pursuant to any requirements under Rule 13.51(2) of the Listing Rules nor are there any matters which need to be brought to the attention of our Shareholders in connection with the appointment of Directors of our Company.

## SENIOR MANAGEMENT

The following table sets forth the age and position of the senior management:

| Name | Age | Position/Title |
|---|---|---|
| Ms. CHAN Suk Yee, Helen (陳淑懿小姐) | 59 | Deputy store manager |
| Ms. CHOW Pui Lam (周佩霖小姐) | 58 | Deputy store manager |
| Mr. MAEDA Shigeki (前田茂樹先生) | 50 | Deputy store manager |
| Mr. TAKAO Kyuma | 55 | Deputy store manager |
| Mr. OHASHI Takaaki (大橋隆明先生) | 53 | Sales division manager |
| Mr. FANG Yugui (方玉貴先生) | 48 | Chief financial officer |

**Ms. CHAN Suk Yee, Helen (陳淑懿小姐)**, aged 59, is the deputy store manager of Shanghai Jiuguang. Ms. Chan has joined the Lifestyle Group since 2003 and worked in sales and operation functions across various divisions in Hong Kong. Ms. Chan was first seconded to Suzhou Jiuguang as the division manager in 2009. Subsequently, she was promoted to play a shared role of the deputy store manager of Shanghai Jiuguang in 2012. She was officially transferred to Shanghai Jiuguang as the deputy store manager in 2013. Prior to joining the Lifestyle Group, Ms. Chan had begun her career as a junior sales person in Dodwell Stores from May 1977 and left as the Assistant Buyer, Grade III in December 1989. She then held senior retailing positions in Nina Ricci (Far East) Limited and LVMH Fashion Group in Hong Kong from January 1990 to October 1992 and from November 1992 to June 2003, respectively. Ms. Chan has more than 25 years of solid experience in retailing industry in both the PRC and Hong Kong. Ms. Chan graduated from Maryknoll Convent School in June 1974. Ms. Chan resigned from her position in the Remaining Lifestyle Group with effect from 31 May 2016.

**Ms. CHOW Pui Lam (周佩霖小姐)**, aged 58, is the deputy store manager of Suzhou Jiuguang. Ms. Chow joined Sogo Hong Kong (which had not yet been a subsidiary of Lifestyle at the material time) in April 1985. She worked as the junior section manager, the section manager, the senior department manager and the assistant division manager of the Ladies' Wear Division of Sogo Hong Kong from April 1985 to July 2002. Ms. Chow was a director of the Merchandising Department of Golden Eagle Retail Group Limited (stock code: 3308), a company listed on the Stock Exchange, and worked in Shanghai Golden Eagle Shopping Centre from April 2006 to January 2007. Ms. Chow rejoined the Lifestyle Group in March 2007, and was seconded to Suzhou Jiuguang as deputy store manager responsible for its sales and operation.

Ms. Chow has more than 25 years of solid experience in retail industry in the PRC and Hong Kong. Ms. Chow resigned from her position in the Remaining Lifestyle Group with effect from 31 May 2016.

**Mr. MAEDA Shigeki (前田茂樹先生)**, aged 50, is the deputy store manager of Shanghai Jiuguang. Mr. Maeda joined the Lifestyle Group in April 2001 and was the division manager of the Task Force Department before he left the Lifestyle Group in May 2006. He rejoined the Lifestyle Group in the same year and was seconded to Shanghai Jiuguang as the division manager of the Ladies' Wear Department and the Household Department. Subsequently, Mr. Maeda was promoted to the position of the deputy store manager in 2008. Prior to joining the Lifestyle Group, Mr. Maeda was employed by Sogo Co., Ltd. in Japan from April 1989 to March 2001. He was awarded a Bachelor degree of Law by the Konan University in Kobe, Japan in March 1989. He has more than 25 years of solid experience in department stores in the PRC, Hong Kong and Japan. Mr. Maeda resigned from his position in the Remaining Lifestyle Group with effect from 19 June 2016.

**Mr. TAKAO Kyuma**, aged 55, is the deputy store manager of Suzhou Jiuguang. Mr. Takao joined the Lifestyle Group in 2004, and was the division manager of the Ladies' Wear Department of the Lifestyle Group before his secondment. Mr. Takao was seconded to Suzhou Jiuguang as the division manager in 2007. He was later promoted to the position of the deputy store manager of Suzhou Jiuguang in 2009. Prior to joining the Lifestyle Group, he was employed by Sogo Co., Ltd. in Japan from April 1984 to January 2003, during which he had been transferred to Sogo Hong Kong (which had not yet been a subsidiary of Lifestyle at the material time) from March 1988 to August 1991. Mr. Takao was awarded a Bachelor degree of Law by the Seijo University in Tokyo, Japan in March 1984. He has more than 30 years of solid experience in department stores in the PRC, Hong Kong and Japan. Mr. Takao resigned from his position in the Remaining Lifestyle Group with effect from 19 June 2016.

**Mr. OHASHI Takaaki (大橋隆明先生)**, aged 53, is the sales division manager of Dalian Jiuguang and is responsible for overseeing the daily operation of Dalian Jiuguang. Mr. Ohashi joined the Lifestyle Group in 2007, and was the division manager of the Kids Fashion & Toys Department of the Lifestyle Group before his secondment. Mr. Ohashi was seconded to our Shenyang Jiuguang in 2012, and was transferred to Dalian Jiuguang in 2014. Prior to joining the Lifestyle Group, Mr. Ohashi was the manager of Division Promotion Department of the Kuang San SOGO International Development Co., Ltd in Taiwan from September 1997 to August 2007. He was also employed by Sogo Co., Ltd. in Japan from April 1987 to June 2002. Mr. Ohashi was awarded a Bachelor degree of Arts (Economics) by the Josai University in Saitama, Japan in March 1987. He has more than 28 years of solid experience in department stores in the PRC, Hong Kong, Taiwan and Japan. Mr. Ohashi resigned from his position in the Remaining Lifestyle Group with effect from 21 June 2016.

**Mr. FANG Yugui (方玉貴先生)**, aged 48, has been appointed the chief financial officer of our Group in charge of the finance division and the information technology division since 1 March 2016. He joined Shanghai Jiuguang in 2012 as finance division manager and was promoted to the finance division senior manager in 2014. He was an accounting manager of Gemstar Technology (Yangzhou) Co. Ltd., a subsidiary of Universal Electronics Inc. (stock code:

UEIC), a company listed in NASDAQ Stock Exchange, from 2006 to 2011. Mr. Fang was awarded a Master degree of Business Administration by the Jiangsu University (江蘇大學) in December 2009. He was also a qualified senior auditor in the PRC.

None of the above senior management members have held any directorship in any publicly listed companies in the last three years prior to the Latest Practicable Date.

## COMPANY SECRETARY

**Mr. POON Fuk Chuen (潘福全先生)**, aged 54, is the company secretary of our Company. Mr. Poon graduated with a joint bachelor degree in accounting and statistics from the University of Southampton, United Kingdom. He is also an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Prior to joining the Lifestyle Group in December 2004, he was an executive director, company secretary and chief financial officer of Hengan International Group Company Limited, a listed company in Hong Kong (stock code: 1044). Mr. Poon is the incumbent chief financial officer, company secretary as well as one of the authorised representatives of Lifestyle. He has experiences in accounting, finance and management fields.

## OUR GROUP'S RELATIONSHIP WITH EMPLOYEES

Our Group generally maintains good working relations with its staff. Our Group has not experienced any significant problems with the recruitment and retention of experienced employees.

Our Group has not suffered from any material disruption of its normal business operations as a result of labour disputes or strikes.

### Welfare contributions

As at 31 December 2015, our Group had 62 Hong Kong employees. As required by the employment laws in Hong Kong, our Group participates in the mandatory provident fund scheme to provide retirement benefits for such Hong Kong employees. Our Group's Hong Kong employees are also entitled to medical welfare provided by our Group. Our Group also provides accommodation in the PRC to our Hong Kong employees who work in the PRC.

As required by the PRC regulations on social insurance, our Group participates in the social insurance schemes operated by the relevant local government authorities which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance (as applicable).

## BOARD COMMITTEES

### Audit committee

Our Company established an audit committee on 24 June 2016 with written terms of reference in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules ("**CG Code**"). The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of our Group and to make recommendations to our Board on the appointment and removal of external auditors. The audit committee has also been delegated the corporate governance functions as set out in code provision D.3.1 of the CG Code.

The audit committee comprises three independent non-executive Directors, namely, Ms. Cheung Mei Han, Mr. Cheung Yuet Man, Raymond and Mr. Lam Kwong Wai. Mr. Lam Kwong Wai is the chairman of the audit committee.

**Remuneration committee**

Our Company established a remuneration committee on 24 June 2016 with written terms of reference in compliance with the code provisions of the CG Code. The primary duties of the remuneration committee are to make recommendations to our Board on the remuneration policies and structure of the remuneration for our Directors and senior management, to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration and to set up a formal and transparent procedure for determination of such remuneration policies.

The remuneration committee comprises one executive Director and three independent non-executive Directors, namely, Mr. Thomas Lau, Ms. Cheung Mei Han, Mr. Cheung Yuet Man, Raymond and Mr. Lam Kwong Wai. Mr. Lam Kwong Wai is the chairman of the remuneration committee.

**Nomination committee**

Our Company established a nomination committee on 24 June 2016 with written terms of reference in compliance with the code provisions of the CG Code. The primary duties of the nomination committee are to make recommendations to our Board on the appointment and succession planning of Directors, to review the structure, size and composition of our Board and assess the independence of independent non-executive Directors.

The nomination committee comprises one executive Director and three independent non-executive Directors, namely, Mr. Thomas Lau, Ms. Cheung Mei Han, Mr. Cheung Yuet Man, Raymond and Mr. Lam Kwong Wai. Mr. Thomas Lau is the chairman of the nomination committee.

## COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of fees, salaries, housing allowances, other allowances, benefits in kind (including contribution to the pension scheme on behalf of our Directors) or any bonuses paid to our Directors for each of the three years ended 31 December 2015 (being such part of the remuneration paid by the Lifestyle Group to our Directors, which was allocated to our Group as expenses by reference to their involvement in the operations of our Group) were approximately HK$13.8 million, HK$12.4 million and HK$11.2 million respectively. Details of the arrangement for remuneration are set out in Note 14 to the Accountants' Report in Appendix I to this listing document.

The aggregate amount of fees, salaries, housing allowances, other allowances, benefits in kind (including contribution to our Group's pension scheme on behalf of the five highest paid individuals) or any bonuses paid to the five highest paid individuals (including Directors) for each of the three years ended 31 December 2015 (being such part of the remuneration paid by the Lifestyle Group to the five highest paid individuals, which was recorded to our Group as expenses by reference to their involvement in the operations of our Group) were approximately HK$19.2 million, HK$17.4 million and HK$18.7 million, respectively.

During the Track Record Period, no remuneration was paid by our Group to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Group. No compensation was paid by our Group to, or receivable by, our Directors, past Directors or the five highest paid individuals during the Track Record Period for the loss of any office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the Track Record Period.

Save as disclosed above, no other payments have been paid, or are payable, by our Company or any subsidiary of our Company to our Directors and the five highest paid individuals during the Track Record Period.

The aggregate amount of directors' fee and other emoluments payable to our Directors for the year ending 31 December 2016 (on full year basis), excluding any discretionary bonus, is estimated to be approximately HK$5.9 million, comprising (i) HK$1.8 million (being such part of the estimated remuneration paid or payable by the Lifestyle Group to our executive Director attributable to the period from 1 January 2016 to 27 June 2016 which shall be allocated to our Group as expenses by reference to his involvement in the operations of our Group up to 27 June 2016) and (ii) HK$4.1 million (being the remuneration which will be paid by our Group to our Directors for the period from 24 or 28 June 2016 (where applicable) to 31 December 2016 pursuant to our Directors' service agreements and letters of appointment referred to in the paragraph headed "Particulars of service contract and letters of appointment" as set out in Appendix V to this listing document).

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of our Group. Our Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to our Company or executing their functions in relation to its operations. Our Company regularly reviews and determines the remuneration and compensation packages of our Directors and senior management.

After Listing, the remuneration committee of our Company will make recommendation for the remuneration and compensation packages of our Directors and senior management for approval by our Board with reference to salaries paid by comparable companies, time commitment and responsibilities of our Directors and senior management and performance of our Group.

## STAFF

As at 31 December 2015, our Group employed a total of 1,587 employees. A breakdown by functions is tabulated below:

| Function | Approximate number of employees |
|---|---|
| General management | 6 |
| Sales and marketing | 1,086 |
| Accounting, finance and administration | 205 |
| Security and maintenance | 229 |
| Property management and development | 19 |
| Others | 42 |
| **Total:** | 1,587 |

Our Directors believe that our staff is one of our most valuable assets and has contributed to the success of our Group. Our Group provides on-the-job training for our staff to enhance their relevant knowledge and skills. Our Group to date has not experience any significant turnover of staff nor any disruption to its business operations.

The remuneration policy of our Group is set on the basis of the merit, qualifications and competence of the employees. In addition to basic salary, performance-related salary may also be awarded to employees based on internal performance evaluation. Our Group also provides our employees with other welfare benefits including medical care and other retirement benefits in accordance with applicable regulations and the internal policies of our Group.

The remuneration committee will regularly review the remuneration and compensation package of our Directors and senior management, by reference to, among other things, our operating results, individual performance and market level of salaries paid by comparable companies.

## CORPORATE GOVERNANCE

Our Directors recognise the importance of incorporating elements of good corporate governance in management and internal control procedures so as to achieve effective accountability.

In accordance with the requirements of the Listing Rules, our Company has established the audit committee in compliance with the code provisions of the CG Code to oversee our Company's financial reporting procedures and internal controls so as to ensure compliance with the Listing Rules.

Our Company has adopted a system of corporate governance.

Our Company is committed to the view that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors, the number of which should make up at least one-third of our Board) so that there is a strong independent element on our Board, which can effectively exercise independent judgement. Our Company is also committed to the view that our independent non-executive Directors should be of sufficient calibre and number for their views to carry weight. Our independent non-executive Directors are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgement.

Except for the deviation from code provision A.2.1 of the CG Code, our corporate governance practices have complied with the Code on Corporate Governance Practices. Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The roles of the Chairman and the Chief Executive Officer of our Company are not segregated. As such arrangement facilitates the development and execution of our Group's business strategies and enhances the effectiveness of our operations, our Board believes that it is in the best interest of our Group to have Mr. Thomas Lau taking up both roles. Therefore, our Directors consider that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance.

## COMPLIANCE ADVISER

Our Company has appointed KGI Capital Asia Limited as our 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 our Company in the following circumstances:

(i) before the publication of any regulatory announcement, circular or financial report;

(ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

(iii) if our Company's business activities, developments or results materially deviate from any forecast, estimate or other information in this listing document; and

(iv) if the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of our Shares.

The term of appointment of the compliance adviser shall commence on the Listing Date and end on the date of despatch of our Group's annual report in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

## GENERAL

As at the date of this listing document, Lifestyle held 60 Shares representing the entire issued share capital of our Company. As disclosed in the section headed "The Distribution and Spin-off" in this listing document, the Distribution will be satisfied by way of a distribution in specie to the Lifestyle Qualifying Shareholders of the entire issued share capital of our Company (including the Shares to be issued by our Company pursuant to the Capitalisation Issue), in proportion to their respective shareholdings in Lifestyle, on the basis of one Share for every Lifestyle Share held on the Distribution Record Date. As a result, immediately after the Distribution, our Company will cease to be a subsidiary of Lifestyle.

Immediately following completion of the Distribution and the Spin-off, United Goal will hold 33.70% of the total issued share capital of our Company and Mr. Thomas Lau, who apart from his interest held through United Goal, will also either directly or through Dynamic Castle hold another 17.99% of the total issued share capital of our Company immediately following completion of the Spin-off based on their shareholdings in Lifestyle on the Latest Practicable Date and assuming that they will remain unchanged on the Distribution Record Date. Hence, United Goal and Mr. Thomas Lau will become our Controlling Shareholders following the completion of the Spin-off.

Mr. Thomas Lau, being our executive Director, also holds position as director on the board of Lifestyle. Mr. Thomas Lau has been re-designated as the non-executive director and chairman of Lifestyle since 28 June 2016. As at the Latest Practicable Date, Mr. Thomas Lau directly held 66,051,460 Lifestyle Shares and was also interested in 540,000,000 Lifestyle Shares and 222,350,332 Lifestyle Shares respectively held by United Goal and Dynamic Castle.

Save as disclosed in this listing document, our Directors and our Controlling Shareholders have separately confirmed that they do not have interest in any business apart from our Group's business which competes or is likely to compete, directly or indirectly, with the business of our Group.

Lifestyle was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 29 December 2003, the shares of which have been listed on the Stock Exchange since 15 April 2004. Lifestyle Properties is a subsidiary of Lifestyle and Mr. Thomas Lau also through Springboard Holdings Limited owned another 14.97% interest in Lifestyle Properties as at the Latest Practicable Date. Lifestyle Properties Group is principally engaged in property development and property investment.

Our Directors expect that, immediately following the Spin-off, the Remaining Lifestyle Group will continue to be principally engaged in the operation of department stores in Hong Kong, whereas our Group will be principally engaged in the operation of department stores and supermarket business in the PRC and restaurant business.

## INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS AND LIFESTYLE

Our Board is satisfied that our Group can operate independently from our Controlling Shareholders and the Remaining Lifestyle Group following completion of the Spin-off based on the following:

### Management independence

Our Company and Lifestyle have boards of directors that function independently of each other. The following table sets forth the details of the directorships of our Company and Lifestyle immediately upon Listing:

| Name | Our Company | Lifestyle |
|---|---|---|
| Mr. Thomas Lau | Chairman, Chief Executive Officer and executive Director | Chairman and non-executive director |
| Ms. Chan Chor Ling, Amy | Non-executive Director | — |
| Ms. Cheung Mei Han | Independent non-executive Director | — |
| Mr. Cheung Yuet Man, Raymond | Independent non-executive Director | — |
| Mr. Lam Kwong Wai | Independent non-executive Director | — |
| Ms. Lau Kam Shim | — | Executive director |
| Ms. Lau Yuk Wai, Amy | — | Non-executive director |
| Mr. Doo Wai Hoi, William | — | Non-executive director |
| Mr. Lam Siu Lun, Simon | — | Independent non-executive director |
| The Hon. Shek Lai Him, Abraham | — | Independent non-executive director |
| Mr. Hui Chiu Chung | — | Independent non-executive director |
| Mr. Ip Yuk Keung | — | Independent non-executive director |

Our Board consists of five Directors, comprising one executive Director, one non-executive Director and three independent non-executive Directors. Amongst members of the Board, Mr. Thomas Lau, an executive Director, also holds position as director on the board of Lifestyle. Mr. Thomas Lau has been re-designated as the non-executive director and chairman of Lifestyle since 28 June 2016. All other Directors do not hold any positions in any member of the Remaining Lifestyle Group.

Despite the dual roles held in our Group and the Remaining Lifestyle Group by Mr. Thomas Lau, this should not affect the management independence as the day-to-day operation of our Group will be principally overseen and managed by our management team (including Mr. Thomas Lau) who do not hold any executive directorship position in the Remaining Lifestyle Group after the Spin-off. In relation to any transactions between our Group and the Remaining Lifestyle Group, Mr. Thomas Lau will abstain from voting in the relevant resolution(s) on the meeting of the board of directors of both our Company and Lifestyle and will not be counted in the quorum of the relevant board meeting. Further, in case our Group proposes to enter into any transactions with the Remaining Lifestyle Group which are subject to independent shareholders' approval of our Company pursuant to the Listing Rules, the independent non-executive Directors of our Company will be able to form an independent board committee to advise our Company and/or the independent shareholders of our Company on the transactions.

Members of the senior management of our Group have, during the whole or substantially the whole of the Track Record Period, undertaken senior management supervisory responsibilities in our Group's business. Save as disclosed above, except Mr. Thomas Lau, no other directors or senior management of our Group will have any role in the Remaining Lifestyle Group after the Spin-off. This ensures the independence of the daily management and operations of our Group from those of the Remaining Lifestyle Group. The senior management members of our Group will not have any official capacity or involvement in, or be remunerated by the Remaining Lifestyle Group after Listing.

All of our Directors and members of senior management possess relevant management and/or industry-related experience to act as Directors or senior management of our Group. Their further biographical details are set out in the section headed "Directors, senior management and staff" in this listing document.

Each of our Directors is aware of his/her fiduciary duties as a Director of our Company which requires, among other things, that he/she acts honestly and in good faith for the benefit and in the interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. Under the Articles of Association, where a Director has a material interest in any contract, arrangement or other proposal considered by our Board (other than certain matters permitted under note 1 to Appendix 3 to the Listing Rules), the interested Director(s) shall abstain from voting in the relevant board resolution of our Company in respect of such transactions and shall not be counted in the quorum of the relevant board meeting. Moreover, if potential conflict of interest between the overlapping directors' roles arises, the interested Director(s) with potential conflict of interest should abstain from voting at the relevant Board resolution of our

Company in respect of such transactions or matters with potential conflict of interest, and they shall not be counted in the quorum of the relevant Board meetings. Board decisions in respect of such transactions or matters with potential conflict of interest will be decided by other Directors with no overlapping roles or involvement in the Remaining Lifestyle Group. In addition, our Group has a senior management team to carry out business decisions independently. Our independent non-executive Directors have sufficient and competent industry knowledge and experience, and will bring independent judgement to the decision making process of our Board, taking into account the advice of the senior management of our Group.

Based on the above, our Board is satisfied that our Board as a whole, together with the senior management team of our Group, are able to perform the managerial role in our Group independently of our Controlling Shareholders and Lifestyle.

**Operational independence**

Although our Controlling Shareholders will retain a controlling interest in our Company and the Remaining Lifestyle Group, our Board shall make decisions on, and to carry out, the business operations of our Company independently. Furthermore, as disclosed in the paragraph headed "Clear delineation of business" below, our Group and the Remaining Lifestyle Group have their own geographic segment and our Group shall operate independently from the Remaining Lifestyle Group.

Our Group does not rely on any licenses held by the Remaining Lifestyle Group for the operation of our Group. Our Group has its own management team to carry out its business and operations, including purchasing, marketing, procurement of concessionaries, services and rental, restaurant and sales operations, which will operate separately and independently of the Remaining Lifestyle Group. Such management team comprises managers who have considerable experience not only in the management of department store operation in the PRC but also in the management of department store operation of our Group. The capability of our Group to operate independently of the Remaining Lifestyle Group should not be a concern.

Whilst our Group has entered into two tenancy agreements with the Remaining Lifestyle Group as described in the sub-sections headed "Exempt continuing connected transactions" and "Non-exempt continuing connected transactions" in the section headed "Continuing connected transactions" in this listing document, our Directors are of the opinion that there is a ready supply of similar commercial premises available in the market and suitable replacements can be obtained on a timely and commercially viable basis at market rent from other independent third party suppliers and that such arrangement will not materially affect the operational independence of our Group.

As disclosed in the sub-section headed "Non-exempt continuing connected transactions" in the section headed "Continuing connected transactions" in this listing document, our Group has entered into the Framework Agreement with the Lifestyle Properties Group in respect of the provision by the Lifestyle Properties Group of non-exclusive property development (including without limitation feasibility study, design, project co-ordination and supervisions) services by the Lifestyle Properties Group to our Group for certain properties owned by our Group situated in the PRC. The request for provision of the services contemplated under the Framework Agreement is mainly for ensuring the continuity of the work of the project management team of our Group for certain properties owned by our Group situated in the PRC. For new property projects in the future, our Group may consider other service providers or establish its own project management team to undertake the work contemplated to be provided by the Lifestyle Properties Group under the Framework Agreement.

In view of the above, our Directors believe that our Group is able to operate independently from our Controlling Shareholders and the Remaining Lifestyle Group after Listing.

**Financial independence**

Our Group has its own independent financial system and finance team which are responsible for its own treasury functions despite members of our Group were subsidiaries of Lifestyle during the Track Record Period.

All amounts due from and/or to the Remaining Lifestyle Group will be fully repaid, settled, assigned or novated to our Group prior to the Listing Date. During the Track Record Period, a banking facility made available to our Group was guaranteed by Lifestyle. The outstanding balance under such banking facility of our Group amounted to approximately nil, HK$203.1 million and HK$703.8 million as at 31 December 2013, 2014 and 2015 respectively. It is intended that the corporate guarantee provided by Lifestyle will be replaced by a corporate guarantee to be given by our Company upon Listing.

During the Track Record Period, despite that members of our Group were subsidiaries of Lifestyle, their operations were carried out individually at company level. The financials of such operating companies are consolidated at the group level.

Having considered the above factors, our Directors consider that there is no financial dependence on our Controlling Shareholders and the Remaining Lifestyle Group after Listing.

**Administrative independence**

Our Group has separate management teams and functional units on finance and accounting, general office administration, company secretarial, human resources and information technology. As such, our Group is able to carry out all essential administrative functions without requiring the support of the Remaining Lifestyle Group.

Our Directors consider that our Group will have independence of administrative capability for the following reasons:

(a) our Group has its own teams and staff members to carry out certain day-to-day and routine administrative functions in areas like finance and accounting, general office administration, human resources and information technology; and

(b) as mentioned in paragraph (a) above, our management team (including Mr. Thomas Lau), who do not hold any executive directorship position in the Remaining Lifestyle Group, in addition to their duties as far as business pursuits are concerned, will also be assigned different management roles that include overseeing the performance of the overall administrative functions (including those services provided by the Remaining Lifestyle Group) to ensure that the same shall be carried out properly and that the independence of the administrative capability of our Group will not be compromised.

Given that our Group will still carry out the day-to-day administrative functions on its own, our Directors consider that our Group will have independence of administrative capability after the Spin-off. Having considered the above, the Sponsors consider that our Group can operate independently from Lifestyle.

**Clear delineation of business**

It is a strategy for the Lifestyle Group to segregate the Hong Kong and the PRC operations to allow the respective management teams to focus on its own geographic segment and to cater for different investors' appetite for each of the Hong Kong and the PRC market. After the Spin-off, the Remaining Lifestyle Group will continue to be principally engaged in the operation of department stores in Hong Kong, and our Group will be principally engaged in the operation of department stores and supermarket business in the PRC and restaurant business.

The Remaining Lifestyle Group will continue to specialise in the operation of middle to upper-end department stores in Hong Kong under the retailer brand name "SOGO". The Hong Kong operation currently comprises the Remaining Lifestyle Group's two SOGO stores including the flagship store in Causeway Bay and the Tsim Sha Tsui store. Our Group will focus on the operation of department stores in the PRC under the Jiuguang Brand. The PRC operation currently mainly comprises 3 department stores, namely Shanghai Jiuguang, Suzhou Jiuguang and Dalian Jiuguang, and 2 other major investments, which are our Daning Project and the Berien Group investment.

*Non-compete undertakings between our Company and Lifestyle Properties*

Lifestyle has given non-compete undertakings to Lifestyle Properties pursuant to the LP Non-compete Deed in order to ensure that there is a clear delineation between the business of the Lifestyle Group (other than the Lifestyle Properties Group) and the business of Lifestyle Properties Group following the LP Spin-off. As our Group was part of the Lifestyle Group at the time of the LP Spin-off and our Controlling Shareholders will remain to be the controlling shareholders of both Lifestyle and our Company after the Spin-off, in order to enable Lifestyle Properties to continue to have similar rights conferred under the LP Non-compete Deed following the Spin-off which, when completed, will result in our Group ceasing to be part of the Lifestyle Group, our Company also entered into the Newco Non-compete Deed with Lifestyle Properties to provide undertakings on terms similar to those given by Lifestyle to Lifestyle Properties under the LP Non-compete Deed.

Pursuant to the Newco Non-compete Deed, during the period (the "**LP Non-compete Period**") for which the Newco Non-compete Deed is in force and subject to the exceptions set out below, our Company shall not, and shall procure that its subsidiaries will not (A) acquire, hold or develop, whether directly or indirectly, any land or properties (i) for residential usage or (ii) for commercial usage in Hong Kong or the PRC, or (B) acquire an interest in any company principally engaged in the business of property development and/or property investment whose principal assets comprise such land or properties as are referred to in (A) above, if such company will become a subsidiary of our Company under the Listing Rules following such acquisition (the "**Relevant Company**"), in each case regardless of the size of the land or properties (collectively, the "**Restrictions**"), provided that the Restrictions shall not apply to the existing properties owned by our Group (including our Daning Project and our project in Shenyang) as of the date of the Newco Non-compete Deed.

Notwithstanding the Restrictions, our Group shall be entitled to acquire, hold or develop the following new land or properties which may be acquired by it after the date of the Newco Non-compete Deed, whether directly or indirectly (including through the acquisition of the Relevant Company):

(a) any land or properties for the own use and occupation of our Group (including without limitation those used for the supermarkets, restaurants or other business operations by our Group and warehouses and offices used in connection with the business operations of our Group) and/or for our department store operations and/or for purposes complementary to our department store operations, regardless of the size of the land or properties; or

(b) any other land or properties, whether partly or wholly, for commercial and/or residential usage on the strict condition that the relevant land, property or interest therein (the opportunity to acquire such land, property or interest therein being hereinafter referred to as the "**LP Opportunity**") has first been offered to the Lifestyle Properties Group and rejected by an independent committee of the board of directors of Lifestyle Properties comprising the independent non-executive directors of Lifestyle Properties who do not hold any role in our Group (the "**LP Independent Board Committee**"), and the principal terms on which our Group invests, participates or engages in the project are not more favourable to our Group as those disclosed to the Lifestyle Properties Group in relation to the LP Opportunity.

In addition, under the Newco Non-compete Deed, our Company has undertaken to and for the benefit of Lifestyle Properties and its subsidiaries to procure that our Group shall not change the existing use of our owned properties or relevant parts thereof which are designated either for our department store operations or for purposes complementary to our department store operations or for our own use and occupation (including without limitation those used for the supermarkets, restaurants or other business operations by our Group and warehouses and offices used in connection with the business operations of our Group), to any other usages which do not fall within the scope of the Permitted Usages, unless:

(a) our Group offers to the Lifestyle Properties Group for the purchase of the relevant property or relevant portions thereof which is or are proposed to be designated for the Other Usages (collectively the "**Sale Portions**") at a price equivalent to the fair valuation attributable to the Sale Portions as determined by an independent property valuer; and

(b) such offer has been rejected by the LP Independent Board Committee. If such offer is rejected by the LP Independent Board Committee, our Group shall be entitled to deal with, hold or use the Sale Portions for the Other Usages.

In relation to our Daning Project, in view of similar undertakings having been given by Lifestyle under the LP Non-compete Deed, our Company has also undertaken to and for the benefit of Lifestyle Properties and its subsidiaries under the Newco Non-compete Deed that if and whenever the development of a property, or the relevant part thereof, comprised in our Daning Project which is for the Other Usages has been completed and is legally permissible for transfer or sale, we will procure our Group to offer such property or the relevant part thereof (the "**Offered Jing'an Property**") to the Lifestyle Properties Group for purchase at a price equivalent to the fair valuation attributable to the Offered Jing'an Property as determined by an independent property valuer. Lifestyle Properties will make the decision on such offer through the LP Independent Board Committee. If such offer is rejected by the LP Independent Board Committee, our Group shall be entitled to deal with, hold or use the Offered Jing'an Property for the Other Usages.

The Shenyang Jiuguang department store operation was closed down by our Group in December 2015 and the property remains as is but vacant. If our Group decides to change the use of the Shenyang property to the Other Usages after completion of the Spin-off, the provisions regarding the change of usages under the Newco Non-compete Deed will apply to the Shenyang property. In such an event, our Group will make an offer to the Lifestyle Properties Group for the purchase of the relevant property at a price equivalent to the fair valuation of the relevant property as determined by an independent valuer in accordance with the requirements of the Newco Non-compete Deed. If such offer is rejected by the LP Independent Board Committee and (where necessary) independent shareholders of Lifestyle Properties, our Group shall be entitled to deal with, hold or use the relevant property for the Other Usages.

Our Company has also undertaken to and for the benefit of Lifestyle Properties and its subsidiaries under the Newco Non-compete Deed that during the LP Non-compete Period, we will procure our Group to refer any potential tenants of its retail space (excluding for this purpose the retail space within the department stores or supermarkets owned or operated by our Group) to the Lifestyle Properties Group whenever enquiries are received from such potential tenants in the event that such retail space of our Group and the Lifestyle Properties Group are in the same city.

In deciding whether to pursue the LP Opportunity or to accept the offer for the purchase of the Sale Portions or the Offered Jing'an Property (such LP Opportunity or offer being hereinafter referred to as the "**LP New Investment Opportunity**") offered under the Newco Non-compete Deed, Lifestyle Properties will seek approval from the LP Independent Board Committee.

Our Company has further undertaken to and for the benefit of Lifestyle Properties and its subsidiaries that, during the LP Non-compete Period:

(a) we will provide to Lifestyle Properties all such information as Lifestyle Properties may reasonably require in order to make an informed assessment of the LP New Investment Opportunity;

(b) we will provide to Lifestyle Properties all such information as our Group possesses, including without limitation all relevant financial, operational and market information and any other necessary information, which is necessary for (i) the annual review by the LP Independent Board Committee in relation to the compliance of the terms set out in the Newco Non-compete Deed by our Company; and (ii) disclosure of decisions made by the LP Independent Board Committee on matters reviewed by them relating to the compliance of the terms set out in the Newco Non-compete Deed by our Company in Lifestyle Properties' annual report, circular or public announcements or notices, and we will give consent to the disclosure of all information in Lifestyle Properties' annual report, circular or public announcements or notices;

(c) we will allow the directors, their respective representatives and the auditors of Lifestyle Properties to have sufficient access to the records of our Group to ensure our compliance with the terms and provisions of the Newco Non-compete Deed;

(d) we will within three (3) months after the end of each financial year of Lifestyle Properties deliver to Lifestyle Properties an annual confirmation in writing signed by our Group (the "**LP Annual Confirmation**") confirming (a) whether or not we have complied with the terms of the Newco Non-compete Deed, and if not, will give particulars of any non-compliance in the LP Annual Confirmation; and (b) whether or not our Group has entered into any transaction with intent to circumvent the terms of the Newco Non-compete Deed, and if so, will give details of such transaction in the LP Annual Confirmation; and

(e) we will procure those of our Directors who are also directors of Lifestyle Properties to abstain from voting at any meetings of board of directors of both Lifestyle Properties and our Board for consideration and approval of any matters referred to in the Newco Non-compete Deed which have or may give rise to conflicts of interest, whether actual or potential.

Under the Newco Non-compete Deed, all future transactions which may be conducted by the Lifestyle Properties Group and our Group in connection with or otherwise relating to the LP New Investment Opportunities are subject to and conditional upon compliance by our Company and Lifestyle Properties with the Listing Rules including the obtaining of relevant independent shareholders' approval of our Company and/or Lifestyle Properties. Each of our Company and Lifestyle Properties shall use their respective best endeavours to ensure compliance with the Listing Rules when undertaking such transactions.

The Newco Non-compete Deed is conditional upon our Shares having becoming listed on the Stock Exchange for dealings on or before the date falling 30 days after the date of this listing document or such later date as the Sponsor and our Company shall agree in writing, whichever is later.

The Newco Non-compete Deed will cease to have effect upon occurrence of the earliest of any of the following events or circumstances: (i) the day on which the shares of Lifestyle Properties cease to be listed on the Stock Exchange; (ii) the day on which the TL Parties, taken as a whole, (aa) ceases to hold 30% or more of the issued share capital of either Lifestyle Properties or our Company (excluding for this purpose any temporary reduction in the direct or indirect shareholdings in Lifestyle Properties or our Company (as the case may be) by reason of a placing of shares in Lifestyle Properties or our Company (as the case may be) by the TL Parties with one or more persons and then, as soon as is practicable, subscribes for new shares of Lifestyle Properties or our Company (as the case may be) and again becomes holding 30% or more of the issued share capital of Lifestyle Properties or our Company (as the case may be)), (bb) does not have power to control the board of directors of Lifestyle Properties or our Company (as the case may be) and (cc) there is at least one other shareholder of Lifestyle Properties or our Company (as the case may be) holding (together with its close associates) more voting power attaching to shares in Lifestyle Properties or our Company (as the case may be) than that held by the TL Parties; and (iii) the day on which the Remaining Lifestyle Group or the TL Parties beneficially owns the entire issued share capital of Lifestyle Properties.

## DISCLOSURE UNDER RULE 8.10 OF THE LISTING RULES

Sky Win Limited ("**Sky Win**"), a wholly-owned subsidiary of Lifestyle, is the operator of a noodle shop under the name of "Hokkai Noodle" (the "**Noodle Shop**"). Apart from the interest of our Controlling Shareholders in Lifestyle as disclosed above, Mr. Thomas Lau was also a director of Sky Win until his resignation on 23 June 2016.

The Noodle Shop is operated as a food shop counter by Sky Win at Basement 2 Floor (supermarket) of the SOGO department store at Causeway Bay with a net area of approximately 1,429 square feet under a dealership agreement made with Sogo Hong Kong for leasing of the floor space. The total revenue and net profit generated by the Noodle Shop for the financial year ended 31 December 2015 were approximately HK$13.5 million and HK$2.19 million, respectively. As at the date of this listing document, the operation of the Noodle Shop is independently managed by the division manager of the sales division that looks after the supermarket section of the SOGO department store at Causeway Bay.

It is considered by our Directors that the competition (if any) of the Noodle Shop with the business of our Group as a whole is immaterial and it is appropriate to exclude the Noodle Shop from our Group for the following reasons:

(a) the Noodle Shop is within and forms part and parcel of the SOGO department store at Causeway Bay and targets to provide simple foods (mainly noodle and snacks) and beverages for the customers of the SOGO department store at Causeway Bay. Its operation is only complementary to the retail operation in the SOGO department store at Causeway Bay in order to provide the convenience under its "one-stop shopping" concept to the customers. It is not a standalone restaurant business like the restaurant chains operated by our Group;

(b) our Group is principally an established operator of department stores based in the PRC and the restaurants operated by our Group only contribute a minor part to the business operation of our Group;

(c) the profit generated by the Noodle Shop is insignificant; and

(d) it is the intention of Sky Win that the operation of the Noodle Shop will be discontinued on or before 30 June 2017 when the supermarket floor of the SOGO department store at Causeway Bay will be undergoing a major renovation then.

Our Controlling Shareholders have no intention to inject the operation of the Noodle Shop or Sky Win into our Group in future.

We do not rely on the Noodle Shop or Sky Win for our suppliers or customers. Nor is any of our Directors or senior management a director or employee of Sky Win.

Save as disclosed above, neither our Controlling Shareholders nor any of our Directors were, as at the Latest Practicable Date, interested in any business, other than that of our Group, which competes or is likely to compete, either directly or indirectly, with our Group's business and which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

## CORPORATE GOVERNANCE MEASURES TO AVOID CONFLICT OF INTEREST

Our Directors recognise the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of our Shareholders. In particular, the following corporate governance measures in relation to managing potential conflict of interests between our Group, our Controlling Shareholders and the Remaining Lifestyle Group will be taken:

(a) any transaction (if any) between (or proposed to be made between) our Group and connected persons will be required to comply with Chapter 14A of the Listing Rules, including, where applicable, the announcement, reporting, annual review and independent shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with the relevant requirements under the Listing Rules; and

(b) in the event that there is conflict of interest in the operations of our Group and the Remaining Lifestyle Group and its associates, and in respect of any proposed contracts or arrangements between our Group and the Remaining Lifestyle Group and its associates, any Director, who is considered to be interested in a particular matter or the subject matter, shall disclose his/her interests to our Board. Pursuant to the Articles, should a Director have any material interests in the matter (other than certain matters permitted under note 1 to Appendix 3 to the Listing Rules), he/she shall not vote on the resolutions of our Board approving the same and shall not be counted in the quorum of the relevant Board meeting.

On the basis that all Directors (except Mr. Thomas Lau) and senior management of our Group do not hold any position in the Remaining Lifestyle Group, and that each of our executive Director and senior management has extensive and relevant experience in the department store business, our Directors are of the view that our Board will have the expertise to transact business which may potentially involve conflict of interest between the Remaining Lifestyle Group and our Group objectively, impartially and in the interest of our Company and our Shareholders as a whole. Besides, conflict of interest of any overlapping Directors will not affect the business operations of our Group as the daily business operations of our Group are operated and implemented by employees of our Group under the strategic directions of our Board, or as the case may be, our experienced and disinterested Board.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Remaining Lifestyle Group and our Group and to protect the interests of our Shareholders, in particular, our minority Shareholders.

## TRADEMARKS IN RELATION TO THE JIUGUANG BRAND

As abovementioned, the Remaining Lifestyle Group will continue to be principally engaged in the operation of department stores in Hong Kong and our Group will be principally engaged in the operation of department stores and supermarket business in the PRC and restaurant business.

In line with the geographical delineation of the department store business of the our Group and the Remaining Lifestyle Group, after completion of the Reorganisation and the transfer of certain trademarks in connection with the Jiuguang Brand registered in the PRC from the Remaining Lifestyle Group to our Group for nominal consideration pursuant to a trademark assignment dated 23 June 2016 and certain trademarks in connection with the Jiuguang Brand registered in Hong Kong and Macau from our Group to the Remaining Lifestyle Group for nominal consideration pursuant to a trademark assignment dated 23 June 2016, the existing trademarks in connection with the Jiuguang Brand (the "**Jiuguang Trademarks**") have become owned by and registered in the name of (a) our Group in the PRC and (b) the Remaining Lifestyle Group in Hong Kong and any other parts of the world (other than the PRC) respectively.

Furthermore, Lifestyle, our Company and their relevant subsidiaries holding these trademarks have entered into an agreement on 24 June 2016, pursuant to which the parties have agreed, as a perpetual arrangement among themselves and without any consideration payable by either our Group or the Remaining Lifestyle Group to the other, that:

(i) our Group will be entitled to own, register and use in the PRC (aa) any of the Jiuguang Trademarks, (bb) any new trademarks which may be modified from any of the Jiuguang Trademarks and adopted for identifying the department store business of our Group operated under the Jiuguang Brand in the PRC, and (cc) any other trademarks which are identical or substantially similar to any of those trademarks described in (ii)(bb) below; and

(ii) the Remaining Lifestyle Group will be entitled to own, register and use in Hong Kong and any other parts of the world (other than the PRC) (aa) any of the Jiuguang Trademarks, (bb) any new trademarks which may be modified from any of the Jiuguang Trademarks and adopted for identifying the department store business of the Remaining Lifestyle Group operated under the Jiuguang Brand in Hong Kong or anywhere in the world (other than the PRC), and (cc) any other trademarks which are identical to or substantially similar to any of those trademarks described in (i)(bb) above.

While the Remaining Lifestyle Group currently operates its department stores in Hong Kong under the "SOGO" brand name pursuant to a license granted by Sogo & Seibu Co., Ltd., the license is not perpetual and any renewal upon its expiry will be subject to agreement between the parties. As such, the Remaining Lifestyle Group considers it necessary to retain the ownership of the Jiuguang Trademarks registered outside the PRC in order to give it the maximum flexibility to operate its department store business under a brand name other than

"SOGO" if the circumstances so require in future. However, such arrangements will not restrict our Group from carrying on its department store business in the PRC as the ownership of the Jiuguang Trademarks registered in the PRC is vested in our Group.

## OVERVIEW

The following table sets out various transactions between our Group and the Remaining Lifestyle Group, Lifestyle Properties Group or Shanghai Joinbuy (as the case may be) which will continue and constitute continuing connected transactions for our Group under the Listing Rules after Listing:

| Parties involved | Nature of transaction |
|---|---|
| ***Non-exempt continuing connected transactions*** | |
| **A. Services Framework Agreement** | |
| Lifestyle Properties and our Company | Provision by the Lifestyle Properties Group of non-exclusive property project related services in respect of property development, including but without limitation feasibility study, design, project co-ordination and supervision, for the relevant property(ies) owned by our Group and situated in the PRC |
| **B. Shanghai Tenancy Agreement** | |
| Shanghai Ongoing (a 65% indirectly owned subsidiary of our Company) as tenant and Shanghai Joinbuy as landlord | Tenancy agreement in respect of the lease of the entire building (including open space, external wall and roof top of the building) situates at 1618 Nanjing Xi Road, Jing'an District, Shanghai, the PRC known as Shanghai Joinbuy CityPlaza (上海九百城市廣場) |
| **C. Hong Kong Restaurant Tenancy Agreement** | |
| Congenial Company Limited (a member of the Remaining Lifestyle Group) ("**Congenial**") as the landlord and owner and Global Top (a wholly-owned subsidiary of our Company) as the tenant | Tenancy agreement in respect of the lease of a portion of 22/F, East Point Centre, 555 Hennessy Road, Causeway Bay, Hong Kong to our Group as restaurant in Hong Kong |

| Parties involved | Nature of transaction |
|---|---|
| ***Exempt continuing connected transactions*** | |
| **D. Trademark Licensing Agreement** | |
| Lifestyle Corporate Services Limited (a member of the Remaining Lifestyle Group) as the licensor and our Company as the licensee | Grant of non-exclusive trademark license by Lifestyle Corporate Services Limited to our Group |
| **E. Hong Kong Office Tenancy Agreement** | |
| Grand Kinetic Limited (a member of the Remaining Lifestyle Group) ("**Grand Kinetic**") as the landlord and owner and Wise Fortune (a wholly-owned subsidiary of our Company) as the tenant | Tenancy agreement in respect of the lease of a portion of 20th Floor, East Point Centre, 555 Hennessy Road, Causeway Bay, Hong Kong to our Group as office in Hong Kong |
| **F. PRC (Shanghai) Tenancy Agreement** | |
| Shanghai Ongoing (a 65% indirectly owned subsidiary of our Company) as the head tenant and 利晨企業管理諮詢(上海)有限公司 (Lichen Enterprise Management Consulting (Shanghai) Co. Limited*) (a member of the Lifestyle Properties Group) ("**Lichen Company**") as the sub-tenant | Tenancy agreement in respect of the lease of Room 910 on the 9th Floor of Shanghai Joinbuy CityPlaza, 1618 Nanjing Xi Road, Jing'an District, Shanghai, the PRC, to the Lifestyle Properties Group as office in PRC |
| **G. PRC (Shenyang) Tenancy Agreement** | |
| SY Foreversmart (a wholly owned subsidiary of our Company) as the landlord and owner and 瀋陽怡富置業有限公司 (Shenyang Yifu Company Limited*) (a member of the Lifestyle Properties Group) ("**Shenyang Yifu**") as the tenant | Tenancy agreement in respect of the lease of an office unit on Level 3 of a commercial building, No. 68 Zhongjie Road, Shenhe District, Shenyang, Liaoning Province, the PRC to the Lifestyle Properties Group as office in PRC |
| **H. Entrusted Loan Agreement** | |
| Shanghai Ongoing (a 65% indirectly owned subsidiary of our Company) as lender, Mizuho Bank, Ltd. as lending agent and Shanghai Joinbuy as borrower | Provision of an entrusted loan of RMB30,000,000 for a term of 12 months |

## NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

### (1) Services Framework Agreement

*Relationship between our Group and Lifestyle Properties*

Upon Listing, United Goal will become one of our Controlling Shareholders and Lifestyle is owned as to 33.70% by United Goal. Mr. Thomas Lau, being our executive Director, ultimately owns 80% interest in United Goal through Asia Prime. Mr. Thomas Lau also either directly or through Dynamic Castle owns another 17.99% interest in Lifestyle. Pursuant to Rule 14A.13(3) of the Listing Rules, Lifestyle and its subsidiaries (including Lifestyle Properties and its subsidiaries) are associates of United Goal and, therefore, will become connected persons of our Company within the meaning of the Listing Rules. Hence, the transaction contemplated under the Framework Agreement (as defined and mentioned below) will constitute a continuing connected transaction for our Company under Rule 14A.31 of the Listing Rules upon Listing.

*Principal terms*

Our Company entered into a services framework agreement (the "**Framework Agreement**") with Lifestyle Properties on 6 June 2016. This agreement regulates, inter alia, all future transactions ("**Transactions**") between member(s) of our Group and member(s) of the Lifestyle Properties Group arising from provision by the Lifestyle Properties Group of non-exclusive property project related services in respect of property development, including but without limitation feasibility study, design, project co-ordination and supervision, for the relevant property(ies) owned by our Group and situated in the PRC ("**Services**"). For the avoidance of doubt, the Services do not cover the provision of routine property management services for existing properties of our Group.

The principal terms of the Framework Agreement are set out below:

| | | |
|---|---|---|
| **Date** | : | 6 June 2016 |
| **Parties** | : | (1) Lifestyle Properties<br>(2) our Company |
| **Condition** | : | The Framework Agreement shall become effective conditional on (a) the listing of, and permission to deal in, our Shares being granted by the Stock Exchange; (b) the commencement of dealings in our Shares on the Stock Exchange; and (c) where required, the obtaining of approval of the independent shareholders of Lifestyle Properties. |

| | | |
|---|---|---|
| **Term** | : | From the date of the Distribution up to and including 31 December 2018 (the "**Initial Term**"), unless terminated earlier by either party giving to the other party not less than 30 business days' written notice in advance or otherwise in accordance with the terms of the Framework Agreement.<br><br>Subject to compliance with the requirements of the Listing Rules or, alternatively, any waivers obtained from strict compliance with such requirements, upon expiration of the Initial Term or subsequent renewal term, the Framework Agreement will be automatically renewed for successive periods of three years each thereafter (or such other period permitted under the Listing Rules). |
| **Types of services** | : | Our Group may from time to time during the term of the Framework Agreement request the Lifestyle Properties Group to provide the Services. |
| **Subsidiary Agreement(s)** | : | Members of our Group and the Lifestyle Properties Group may from time to time during the term of the Framework Agreement enter into various individual separate services agreement(s) (the "**Subsidiary Agreement(s)**") in relation to any Transaction. The Subsidiary Agreement shall set out the particular scope of the Services, terms and fees of services and other terms in conformity with the terms of the Framework Agreement. The terms of each Subsidiary Agreement must comply with the terms of the Framework Agreement. In particular, the Services to be provided under any Subsidiary Agreement must comply with the following terms:<br><br>(a) its terms are on normal commercial terms (or on terms no less favourable to Lifestyle Properties Group and our Group than terms available to or from Independent Third Parties);<br><br>(b) the fee for the Services shall be based on the costs of provision of the relevant Services incurred by Lifestyle Properties Group plus a margin of 7%. Such fee shall be determined on arm's length negotiations and by reference to the actual costs to be incurred by the Lifestyle Properties Group for provision of the relevant Services; and<br><br>(c) all the Transactions shall be conducted in compliance with all applicable provisions of the Listing Rules, applicable laws, and the respective terms of the Framework Agreement and the Subsidiary Agreement. |

*Reasons for the Transactions*

Pursuant to the services framework agreement dated 26 August 2013 entered into between Lifestyle and Lifestyle Properties in relation to the LP Spin-off which has subsequently been replaced by a new framework agreement dated 9 April 2015, the Lifestyle Properties Group has continued to provide services to members of our Group. As far as the existing projects of our Group are concerned, it is necessary from a continuity perspective for our Group to continue engaging the Lifestyle Properties Group to provide the Services, which mainly relate to the management and coordination of different stages or parties throughout the development period of the projects. For new projects in the future, our Group may continue to appoint the Lifestyle Properties Group or other service provider(s) to undertake the coordination and supervision work or, if necessary, our Group will consider hiring additional project management personnel for its own project development team. Against these backgrounds, Lifestyle Properties and our Company entered into the Framework Agreement for the purpose of regulating all future transactions between our Group and the Lifestyle Properties Group arising from the provision of non-exclusive Services.

To ensure continuing compliance with the requirements relating to continuing connected transactions under Chapter 14A of the Listing Rules, it is necessary for our Group to enter into the Framework Agreement with the Lifestyle Properties Group to regulate collectively and individually the provision of any particular Service.

*Annual caps for the Framework Agreement*

For the purpose of the Listing Rules, the annual caps of the total amount of service fees payable by our Group for the provision of the Services under the Framework Agreement for each of the years ending 31 December 2016 (covering the period from the Listing Date to 31 December 2016), 2017 and 2018 (the “**Service Fee Caps**”) are set at HK$13,000,000, HK$30,000,000 and HK$33,000,000 respectively. The Service Fee Cap for the year ending 31 December 2016 is substantially lower than those for the years ending 31 December 2017 and 2018 because the period covered by it is not a full year and is only around 6 months commencing from the Listing Date to the year end of 2016. The Service Fee Caps were arrived at on the basis of and by reference to, inter alia, (a) the extent of the expected manpower required for the Services to be rendered by the Lifestyle Properties Group which was determined based on the estimated allocation of time of the project development team of the Lifestyle Properties Group after Listing on the property projects of our Group during the period; (b) historical manpower costs attributable to such project development team for providing the Services and the historical service fee paid under the services framework agreement dated 26 August 2013 for the period from 12 September 2013 to 31 December 2014 and the new framework agreement dated 9 April 2015 for the period from 1 January 2015 up to 31 December 2015; (c) expected salary increment of the project development team during the period; and (d) 7% mark-up over the projected costs of the Services which was within the market range of 5% to 15% as confirmed by an independent firm of quantity surveyors.

As our Daning Project had been transited from the pre-development stage to the site construction stage, more professional personnel on full time basis is required to be on board. Other than provision of administrative work services including but not limited to liaising with relevant government authorities in relation to design plan submission and approval of the project set-up during the pre-development stage, the Services expected to be provided shall now include broader scope of work and higher level of skill sets such as project administration, site works management, contract tendering, procurement, architectural services and quantity surveying services, etc. Accordingly, it is expected that (i) there will be a substantial increase in manpower in terms of both additional headcounts as well as working hours of the individual professional staff concerned; and (ii) the salary of the project development team will be increased by around HK$3 million annually during the term of the Framework Agreement. This will in turn increase the costs of Services being provided and therefore, higher proposed Service Fee Caps.

The table below sets forth a breakdown of the expected cost of manpower required for the Services to be rendered by the Lifestyle Properties Group under the Framework Agreement for our Daning Project which we have taken into account when determining the proposed Service Fee Caps:

| | **For the year ending 31 December** | | |
|---|---|---|---|
| | **2016** | **2017** | **2018** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Daning Project | 12,100 *(Note)* | 27,300 | 30,700 |

*Note:* This amount of expected manpower cost is attributable to the period from July (being the month in which it is expected that the Distribution will take place) to 31 December 2016.

*Historical figures*

The total amount of service fee paid by our Group to the Lifestyle Properties Group for the provision of the Services under the services framework agreement between Lifestyle and Lifestyle Properties dated 26 August 2013 for the period from 12 September 2013 (being the commencement of the term of the services framework agreement) up to 31 December 2013 and the year ended 31 December 2014 were approximately HK$2.7 million and HK$7.0 million, respectively.

The total amount of service fee paid by our Group to the Lifestyle Properties Group for the provision of the Services under the new framework agreement between Lifestyle and Lifestyle Properties dated 9 April 2015 for the period from 1 January 2015 (being the commencement of the term of the new framework agreement) up to 31 December 2015 was approximately HK$13.8 million.

*Listing Rules implications*

As the highest of the applicable percentage ratios for the Service Fee Caps under the Listing Rules exceeds 0.1% but is less than 5% on an annual basis, the continuing connected transactions contemplated under the Framework Agreement are subject to the reporting, announcement, and annual review requirements but are exempt from shareholders' approval requirements applicable to continuing connected transactions under Chapter 14A of the Listing Rules.

**(2) Shanghai Tenancy Agreement**

*Relationship between Shanghai Ongoing and Shanghai Joinbuy*

Shanghai Ongoing is a 65% indirectly owned subsidiary of our Company and the remaining 35% equity interest is owed as to 5% by Joinbuy Group and 30% by Joinbuy Investment. Shanghai Joinbuy is owned as to 50% by an indirect wholly-owned subsidiary of our Company, 12% by Joinbuy Group and 38% by Joinbuy Investment.

Joinbuy Group and Joinbuy Investment (whose controlling shareholder is Joinbuy Group), being substantial shareholders of Shanghai Ongoing, are connected persons of our Company. As Shanghai Joinbuy is owned as to 12% by Joinbuy Group and 38% by Joinbuy Investment, Shanghai Joinbuy is an associate of Joinbuy Investment and a connected person of our Company. Hence, the transaction contemplated under the Shanghai Tenancy Agreement (as defined and mentioned below) constitutes a continuing connected transaction for our Company under Chapter 14A of the Listing Rules.

*Principal terms*

Shanghai Joinbuy is currently leasing the Shanghai Premises (as defined below) to Shanghai Ongoing. On 26 November 2004, Shanghai Ongoing entered into a tenancy agreement (the "**Shanghai Tenancy Agreement**") with Shanghai Joinbuy.

The principal terms of the Shanghai Tenancy Agreement are set out below:

| | | |
|---|---|---|
| **Date** | : | 26 November 2004 |
| **Parties** | : | (1) Shanghai Joinbuy as landlord of the Shanghai Premises (as defined below)<br>(2) Shanghai Ongoing as tenant of the Shanghai Premises |
| **Premises** | : | the entire building (including open space, external wall and roof top of the building) situates at 1618 Nanjing Xi Road, Shanghai, the PRC known as Shanghai Joinbuy CityPlaza (上海九百城市廣場) (the "**Shanghai Premises**") |

| | | |
|---|---|---|
| **Gross construction floor area** | : | approximately 92,000 sq.m. |
| **Term** | : | From 1 October 2004 up to and including 30 September 2024 |
| **Rental** | : | the basic rental is RMB125 million (equivalent to approximately HK$150 million) per year. |

As from the year when the average annual sales proceeds (before the deduction of any value added tax, business tax and sales tax), including the sales income of the Shanghai Ongoing and its sub-tenants and income derived from other commercial activities, generated at the Shanghai Premises over the period from the commencement of the Shanghai Tenancy Agreement to and including that year exceeds RMB1,500 million, an additional turnover rent calculated at the rate of 3.5% on the amount of annual sales proceeds over and above RMB1,500 million (after deduction of value added tax, business tax and sales tax) shall be payable by Shanghai Ongoing to Shanghai Joinbuy.

If in any subsequent year the annual sales proceeds falls below the above benchmark ("**Disqualifying Year**"), no additional turnover rent will be payable from that year onward until the year when the average annual sales proceeds over the period from the Disqualifying Year to and including that year exceeds RMB1,500 million again.

For the first year when average annual sales proceeds reaches RMB1,500 million and in the case when the average annual sales proceeds subsequently falls below such benchmark, the first year when the average annual sales proceeds reaches such benchmark again, the additional turnover rent will be subject to a maximum amount equivalent to 3.5% of the difference between the actual accumulated sales proceeds (calculated after the deduction of any value added tax, business tax and sales tax) for the period since the commencement of the Shanghai Tenancy Agreement or the Disqualifying Year (as the case may be) and the expected accumulated sales proceeds for the same period calculated at the rate of RMB1,500 million per annum.

| | | |
|---|---|---|
| **Payment term** | : | the annual basic rental is payable by 12 monthly instalments every year. The additional turnover rent for a particular year is payable within the period of 1 February to 10 February of the following year. |
| **Renewal** | : | Shanghai Ongoing has an option to renew the Shanghai Tenancy Agreement for a further period of 10 years upon expiry of the initial term provided that Shanghai Ongoing has served a notice of renewal on Shanghai Joinbuy at least 12 months before the expiry of the initial term. Save for the rental for the renewed term which will refer to the then market rental on the basis of letting a whole building to a single tenant with a preferential discount, the terms and conditions of the Shanghai Tenancy Agreement for the renewed term will remain unchanged.<br><br>Upon renewal of the Shanghai Tenancy Agreement, our Company will comply with all applicable requirements under the Listing Rules, including (where required) the obtaining of approval of its independent shareholders. |
| **Management fee and other charges** | : | the management fee of the Shanghai Premises will be charged to Shanghai Ongoing at cost. The management fee shall be payable to the property management branch company of Shanghai Joinbuy. Shanghai Ongoing is also responsible for the charges for supplies of water, electricity and gas, communication and equipment in relation to the Shanghai Premises. |
| **Use of Shanghai Premises** | : | commercial use |

The Property Valuer has reviewed the terms of the Shanghai Tenancy Agreement. The Shanghai Tenancy Agreement was 20 years with a fixed base rent plus a percentage of tenant's sales proceeds. The Property Valuer is of the view that it was not unusual that the base rent was fixed and it is normal business practice to have a long term contract (between 10 to 20 years) with an option of the tenant to renew the agreement for a further period of 10 years for such purpose. As at the Latest Practicable Date, the lease has a remaining term of less than 9 years. The fixed base rent provided the landlord with a certainty as to the rent it would receive and the tenant with a certainty of cost budget. The landlord was also able to take immediate advantage of turnover rent rather than waiting for a rent review and the tenant was able to bear the rent cost according to their business volume. It fostered a sense of fair partnership between the landlord and the tenant. Therefore, the Property Valuer is of the opinion that the rent payable by Shanghai Ongoing under the Shanghai Tenancy Agreement is fair and reasonable and consistent with prevailing market rates for similar premises at similar locations as at the date of the Shanghai Tenancy Agreement.

If Shanghai Joinbuy intends to sell the Shanghai Premises during the term of the Shanghai Tenancy Agreement, Shanghai Ongoing will have a first right of refusal to acquire the Shanghai Premises on the same terms.

The Shanghai Premises is currently solely used for the operation of Shanghai Jiuguang, and has adopted a strategy to tailor our products for business executives and expatriates customers. It primarily focuses on middle to upper-end products ranging from daily necessity items to luxury products with a portfolio of international and domestic brands.

The rental and management fee under the Shanghai Tenancy Agreement has been paid by Shanghai Ongoing from cashflow generated from its operation and internal resources of Shanghai Ongoing. The property management branch company of Shanghai Joinbuy will charge Shanghai Ongoing the management fee on an annual basis.

*Reasons for the Transactions*

It is our Group's intention to become a leading department store operator in the PRC and the operation of Shanghai Jiuguang by Shanghai Ongoing was the first step of our Group to enter into the PRC market. The Shanghai Tenancy Agreement is arranged for the leasing of the retailing space as necessary for the operation of our Shanghai Jiuguang.

*Annual caps for the Shanghai Tenancy Agreement*

For the purpose of the Listing Rules, the annual caps are set at (a) RMB81,500,000 (equivalent to approximately HK$97,800,000), RMB168,000,000 (equivalent to approximately HK$201,600,000) and RMB172,000,000 (equivalent to approximately HK$206,400,000) for each of the three years ending 31 December 2018 respectively in respect of the rental payable by Shanghai Ongoing and (b) RMB21,500,000 (equivalent to approximately HK$25,800,000), RMB45,000,000 (equivalent to approximately HK$54,000,000) and RMB48,000,000 (equivalent to approximately HK$57,600,000) for each of the three years ending 31 December 2018 respectively in respect of the management fee payable by Shanghai Ongoing under the Shanghai Tenancy Agreement (the "**Shanghai Annual Caps**"). The Shanghai Annual Caps for the year ending 31 December 2016 are substantially lower than those for the years ending 31 December 2017 and 2018 because the period covered by it is not a full year and is only around 6 months commencing from the Listing Date to the year end of 2016.

If the actual amount payable by Shanghai Ongoing to Shanghai Joinbuy under the Shanghai Tenancy Agreement shall exceed the Shanghai Annual Caps or upon the expiry of the Shanghai Annual Caps on 31 December 2018, our Company will re-comply with all applicable requirements under the Listing Rules, including (where required) the obtaining of approval of our independent shareholders.

Based on the historical results, notwithstanding the slowdown of the PRC retail market as a whole, driven by the growing middle class and resilient market conditions, the retail market of Shanghai, being a first-tier city in the PRC, is expected to record growth. Further, since our target segment is middle to upper-end market, we believe that our Shanghai store, as with the other department stores we operate, is less impacted by online retailing which in general, affects those low end retailers.

The Shanghai Annual Caps with respect to rental are determined with reference to the basic annual rental and estimated turnover rent payable by Shanghai Ongoing to Shanghai Joinbuy pursuant to the Shanghai Tenancy Agreement based on our Company's estimated growth in sales proceeds after taking into account the historical sales performance of the Shanghai Jiuguang and the expected market situations as mentioned above. The Shanghai Annual Caps with respect to the management fees are based on the budget prepared by the property management branch company of Shanghai Joinbuy for each of the three years ending 31 December 2018 after taking into account historical cost trends and projected inflation rates.

*Historical figures*

The rental and management fee paid by Shanghai Ongoing for each of the three years ended 31 December 2015 are set out below:

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Rental paid | 156,900 | 136,900 | 159,000 |
| Management fee paid | 38,220 | 41,942 | 40,640 |

*Listing Rules implications*

As the highest of the applicable percentage ratios for the Shanghai Annual Caps under the Listing Rules is more than 5% on an annual basis, the continuing connected transactions contemplated under the Shanghai Tenancy Agreement are subject to the reporting, announcement, annual review and shareholders' approval requirements applicable to continuing connected transactions under Chapter 14A of the Listing Rules.

**(3) HK Restaurant Tenancy Agreement**

*Relationship between our Group and Congenial*

Upon Listing, United Goal will become one of our Controlling Shareholders and Lifestyle is owned as to 33.70% by United Goal. Mr. Thomas Lau, being our executive Director, ultimately owns 80% interest in United Goal through Asia Prime. Mr. Thomas Lau also either directly or through Dynamic Castle owns another 17.99% interest in Lifestyle. Pursuant to Rule 14A.13(3) of the Listing Rules, Lifestyle and its subsidiaries are associates of United Goal and, therefore, will become connected persons of our Company within the meaning of the Listing Rules. Hence, the transaction contemplated under the HK

Restaurant Tenancy Agreement (as defined and mentioned below) will constitute a continuing connected transaction for our Company under Rule 14A.31 of the Listing Rules upon Listing.

*Principal terms*

Global Top (a wholly owned subsidiary of our Company) as tenant entered into an agreement (the "**HK Restaurant Tenancy Agreement**") with Congenial, a member of the Remaining Lifestyle Group as landlord on 10 June 2016 with respect of the following property. The principal terms of the HK Restaurant Tenancy Agreement are set out below:

| | | |
|---|---|---|
| **Date** | : | 10 June 2016 |
| **Parties** | : | (1) Congenial as landlord of the HK Restaurant Property (as defined below)<br><br>(2) Global Top as tenant of the HK Restaurant Property |
| **Location of the property subject to the HK Restaurant Tenancy Agreement** | : | a portion of 22nd Floor, East Point Centre, 555 Hennessy Road, Causeway Bay, Hong Kong with a total gross floor area of approximately 11,569 square feet (the "**HK Restaurant Property**") |
| **Term** | : | From 1 June 2016 to 31 December 2018 |
| **Monthly rental payable by the tenant** | : | turnover rent at the rate of 17% of the monthly sales proceeds of Global Top generated at the HK Restaurant Property (exclusive of government rent, rates and management fee)<br><br>The Property Valuer has reviewed the terms of the HK Restaurant Tenancy Agreement and is of the opinion that the rent payable by Global Top under the HK Restaurant Tenancy Agreement is fair and reasonable and consistent with prevailing market rates for similar restaurant at similar locations as at the date of the HK Restaurant Tenancy Agreement. |
| **Government rent, rates and management fee** | : | Government rent, rates and management fee in relation to the HK Restaurant Property will be charged to Global Top at cost. |
| **Use** | : | The HK Restaurant Property shall only be used for restaurant purpose by members of our Group. |

*Reasons for the Transactions*

During and after the Track Record Period, the HK Restaurant Property has been used by our Group for its operation of Wa San Mai in Hong Kong which serve Japanese foods and our Group has been paying a turnover rent at the rate of 17% of the monthly sales proceeds. Upon Listing, the HK Restaurant Property will continue to be used for such purpose. Our Directors, after taking into account the view of the independent property valuer that the rent payable by Global Top under the HK Restaurant Tenancy Agreement is fair and reasonable and consistent with prevailing market rates for similar restaurant at similar locations as at the date of the HK Restaurant Tenancy Agreement, consider that entering into the HK Restaurant Tenancy Agreement could provide our Group with an established operation restaurant base in Hong Kong without the need to acquire the relevant property and incur additional capital expenditure and cost of removal and renovation.

*Annual Caps for the HK Restaurant Tenancy Agreement*

For the purpose of the Listing Rules, the annual caps are set at HK$6,500,000, HK$14,000,000 and HK$15,000,000 for each of the three years ending 31 December 2018 respectively in respect of the rental payable by Global Top (the "**HK Annual Caps**"). The HK Annual Caps for the year ending 31 December 2016 are substantially lower than those for the years ending 31 December 2017 and 2018 because the period covered by it is not a full year and is only around 6 months commencing from the Listing Date to the year end of 2016.

If the actual amount payable by Global Top to Congenial under the HK Restaurant Tenancy Agreement shall exceed the HK Annual Caps or upon the expiry of the HK Annual Caps on 31 December 2018, our Company will re-comply with all applicable requirements under the Listing Rules, including (where required) the obtaining of approval of its independent shareholders.

The HK Annual Caps are determined with reference to the estimated turnover rent payable by Global Top to Congenial pursuant to the HK Restaurant Tenancy Agreement based on the estimated sales proceeds after taking into account the historical turnover performance of Wa San Mai in Hong Kong and expected turnover growth of Wa San Mai in Hong Kong.

*Historical figures*

The rental paid by Global Top for each of the three years ended 31 December 2015 are set out below:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Rental paid | 10,336 | 10,719 | 11,505 |

*Listing Rules implications*

As explained below, the HK Restaurant Tenancy Agreement has not been aggregated with the HK Tenancy Agreement as defined below for the purpose of classification of connected transactions under Rule 14A.81 of the Listing Rules. As the highest of the applicable percentage ratios for the HK Annual Caps under the Listing Rules exceeds 0.1% but is less than 5% on an annual basis, the continuing connected transactions contemplated under the HK Restaurant Tenancy Agreement are subject to the reporting, announcement and annual review requirements but are exempt from shareholders' approval requirements applicable to continuing connected transactions under Chapter 14A of the Listing Rules.

## CONFIRMATION FROM OUR DIRECTORS

Our Directors (including our independent non-executive Directors) are of the view that the terms of the non-exempt continuing connected transactions described above are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and such non-exempt continuing connected transactions have been entered into in the ordinary and usual course of business of our Group and on normal commercial terms. In addition, our Directors (including our independent non-executive Directors) consider the proposed annual caps for the above non-exempt continuing connected transactions are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

## CONFIRMATION FROM THE SPONSOR

The Sponsor is of the view that (i) the non-exempt continuing connected transactions described above has been entered into in the ordinary and usual course of business of our Group, on normal commercial terms, fair and reasonable and in the interests of our Company and our Shareholders as a whole, and (ii) the proposed annual caps for the non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Although the duration of the Shanghai Tenancy Agreement exceeds three years, to ensure a smooth operation of Shanghai Jiuguang going forward, the Sponsor, after taking into account the view of the Property Valuer as mentioned above, confirms that it is a normal business practice for contracts of this type to be of such duration.

## APPLICATION FOR WAIVER FROM STRICT COMPLIANCE OF THE LISTING RULES

As the above non-exempt continuing connected transactions are expected to continue on a recurring basis and is expected to extend over a period of time and the transaction is in the ordinary and usual course of our Group's business, our Directors (including our independent non-executive Directors) consider that strict compliance with the shareholders' approval and announcement requirements in respect of the transactions would be impractical and in particular, would add unnecessary administrative costs to our Company. Accordingly, our Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to our Company under Rule 14A.105 of the Listing Rules from compliance with the shareholders' approval and announcement requirements in respect of the transactions under Chapter 14A of the Listing Rules. Apart from the shareholders' approval and announcement requirements for which waivers have been sought, our Company will comply at all times with all other applicable provisions under Chapter 14A of the Listing Rules in relation to the above transactions. Upon expiry of the waiver granted in connection with the above non-exempt continuing connected transactions, our Company will comply with the relevant rules of Chapter 14A of the Listing Rules (including shareholders' approval requirements as appropriate).

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those as at the date of this listing document on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements.

## EXEMPT CONTINUING CONNECTED TRANSACTIONS

Upon Listing, the following transactions will constitute continuing connected transactions exempt from the reporting, annual review, announcement and shareholders' approval requirements under Rule 14A.73 of the Listing Rules.

### (1) Grant of rights to use trademarks by the Remaining Lifestyle Group to our Group

Lifestyle Corporate Services Limited (a member of the Remaining Lifestyle Group) is the owner of the registered trademarks "利福" and "利福 Lifestyle" in Hong Kong and the PRC (collectively the "**Relevant Trademarks**").

As our Group will continue to use the marks "利福" and "利福 Lifestyle" after the Spin-off as a corporate identification that it is still part of or belongs to the overall Lifestyle Group following the Spin-off, for the purpose of the Spin-off exercise, our Company entered into a trademark licensing agreement (the "**Trademark Licensing Agreement**") with Lifestyle Corporate Services Limited, a member of the Remaining Lifestyle Group, on 23 June 2016 for regulating the use of the Relevant Trademarks. Under the Trademark Licensing Agreement, Lifestyle Corporate Services Limited granted a non-exclusive right by way of license to members of our Group to use the marks "利福" and "利福 Lifestyle" for its business operations in the PRC and Hong Kong for free for a period from the date of the Trademark Licensing Agreement until the day on which the TL Parties cease to hold 30% or more of the issued share capital of our Company.

Further particulars of the Relevant Trademarks are set out in the paragraph headed "Intellectual property" in Appendix V to this listing document.

Taking into account (1) the rights to use the Relevant Trademarks by our Group will cease when the TL Parties cease to hold 30% or more of the issued share capital of our Company; and (2) the nature of the trademarks "利福" and "利福 Lifestyle" as corporate symbols or image of the overall Lifestyle Group, our Directors (including our independent non-executive Directors) are of the view that the Trademark Licensing Agreement has been entered into on normal commercial terms (or on terms which are more favourable to our Group), in the ordinary and usual course of business of our Group and the terms of the Trademark Licensing Agreement are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

As the rights to use the Relevant Trademarks were granted to our Group by the Remaining Lifestyle Group on a royalty-free basis, the arrangement under the Trademark Licensing Agreement is exempt from the reporting, annual review, announcement and shareholders' approval requirements applicable to continuing connected transactions under Chapter 14A of the Listing Rules on the basis that it falls within the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules.

**(2) HK Tenancy Agreement**

Wise Fortune (a wholly owned subsidiary of our Company) as tenant entered into a tenancy agreement (the "**HK Tenancy Agreement**") with Grand Kinetic Limited ("**Grand Kinetic**") (a member of the Remaining Lifestyle Group) as landlord on 17 June 2016 with respect to the tenancy of the following property. The principal terms of the HK Tenancy Agreement are set out below:

| | | |
|---|---|---|
| **Date** | : | 17 June 2016 |
| **Parties** | : | (1) Grand Kinetic as landlord and owner of the HK Property (as defined below)<br><br>(2) Wise Fortune as tenant |
| **Location of the property subject to the HK Tenancy Agreement** | : | a portion of 20th Floor, East Point Centre, 555 Hennessy Road, Causeway Bay, Hong Kong with a total gross floor area of approximately 273 square feet (the "**HK Property**") |
| **Term** | : | From 1 June 2016 to 31 December 2018 |
| **Monthly rental payable by the tenant** | : | HK$16,380 (inclusive of rates, government rent, management fees, air-conditioning, electricity charges and other utilities charges which shall be borne by the landlord)<br><br>The Property Valuer has reviewed the terms of the HK Tenancy Agreement and is of the opinion that the rent payable by Wise Fortune under the HK Tenancy Agreement is fair and reasonable and consistent with prevailing market rates for similar serviced office at similar locations as at the date of the HK Tenancy Agreement. |
| **Use** | : | The HK Property shall only be used for office purpose by members of our Group. |

Upon Listing, the HK Property will continue to be used by our Group as office and principal place of business in Hong Kong. Our Directors (including our independent non-executive Directors), after taking into account the view of the independent property valuer that the rent payable by Wise Fortune under the HK Tenancy Agreement is fair and reasonable and consistent with prevailing market rates for similar serviced office at similar locations as at the date of the HK Tenancy Agreement, consider that entering into the HK Tenancy Agreement could provide our Group with an established office and principal place of business in Hong Kong without the need to acquire the relevant property and incurring additional capital expenditure and cost of removal and renovation. Our Directors (including our independent non-executive Directors) are of the view that the HK Tenancy Agreement has been entered into on normal commercial terms and the terms of the HK Tenancy Agreement are fair and reasonable and in the interests of our Company and Shareholders as a whole.

As our Group is part of the Lifestyle Group prior to completion of the Spin-off, no formal arrangement for the above tenancy between our Group and the Remaining Lifestyle Group had been formalised and put in place during the Track Record Period. As such, no historical figures for this transaction for the Track Record Period are available.

Though both the HK Tenancy Agreement and the HK Restaurant Tenancy Agreement as mentioned below were entered into between the Remaining Lifestyle Group and our Group within a 12-month period, they have not been aggregated for the purpose of classification of connected transactions under Rule 14A.81 of the Listing Rules as the two tenancy agreements were entered into on separate dates and negotiated separately with reference to the then prevailing rental rates for similar properties, each of them involves a different usage and were on separate commercial terms and not inter-dependent on each other.

Given that the annual rental payable by our Group under the HK Tenancy Agreement is approximately HK$197,000 and the highest of the applicable percentage ratios for such annual rental under the Listing Rules is less than 0.1% on an annual basis, the transaction contemplated under the HK Tenancy Agreement is exempt from the reporting, annual review, announcement and shareholders' approval requirements applicable to continuing connected transactions under Chapter 14A of the Listing Rules on the basis that it falls within the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules.

**(3) PRC (Shanghai) Tenancy Agreement**

Shanghai Ongoing (a 65% indirectly owned subsidiary of our Company) is currently leasing the Shanghai Property (as defined below) to Lichen Company (a member of the Lifestyle Properties Group). Shanghai Ongoing as head tenant and Lichen Company as sub-tenant entered into a tenancy agreement dated 30 August 2015 (as supplemented by a supplemental agreement by the parties dated 13 April 2016) (the "**PRC (Shanghai) Tenancy Agreement**") with respect to the existing tenancy of the following property. The principal terms of the PRC (Shanghai) Tenancy Agreement are set out below:

| | | |
|---|---|---|
| **Date** | : | 30 August 2015 (supplemented on 13 April 2016) |
| **Parties** | : | (1) Shanghai Ongoing as head tenant of the Shanghai Property (as defined below) |
| | | (2) Lichen Company as sub-tenant |

| | | |
|---|---|---|
| **Location of the property subject to the PRC (Shanghai) Tenancy Agreement** | : | Room 910 on the 9th Floor of Shanghai Joinbuy CityPlaza, 1618 Nanjing Xi Road, Jing'an District, Shanghai, the PRC with a total gross floor area of approximately 120 sq.m. (the "**Shanghai Property**") |
| **Term** | : | From 1 September 2015 up to and including 31 August 2018 |
| **Monthly rental payable by the tenant** | : | RMB25,200 (inclusive of management fees, water, electricity and air-conditioning charges in respect of the Shanghai Property which shall be borne by Shanghai Ongoing)<br><br>The Property Valuer has reviewed the terms of the PRC (Shanghai) Tenancy Agreement and is of the opinion that the rent payable by Lichen Company under the PRC (Shanghai) Tenancy Agreement is fair and reasonable and consistent with prevailing market rates for similar serviced office at similar locations as at the date of the PRC (Shanghai) Tenancy Agreement. |
| **Use** | : | The Shanghai Property shall only be used for office purpose |

Upon Listing, the Shanghai Property will continue to be used by the Lifestyle Properties Group as its place of business in Shanghai, the PRC. Our Directors (including our independent non-executive Directors), after taking into account the view of the independent property valuer, consider that the rent payable by Lichen Company under the PRC (Shanghai) Tenancy Agreement is fair and reasonable and consistent with prevailing market rates for similar serviced office at similar locations as at the date of the PRC (Shanghai) Tenancy Agreement. Our Directors (including our independent non-executive Directors) are of the view that the PRC (Shanghai) Tenancy Agreement has been entered into on normal commercial terms and the terms of the PRC (Shanghai) Tenancy Agreement are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

The historical figures for this transaction for the Track Record Period were approximately RMB313,781 (equivalent to approximately HK$376,537) for the year ended 31 December 2013, RMB302,400 (equivalent to approximately HK$362,880) for the year ended 31 December 2014, and RMB302,400 (equivalent to approximately HK$362,880) for the year ended 31 December 2015.

Though both the PRC (Shanghai) Tenancy Agreement and the PRC (Shenyang) Tenancy Agreement as mentioned below were entered into between our Group and the Lifestyle Properties Group within a 12-month period, they have not been aggregated for the purpose of classification of connected transactions under Rule 14A.81 of the Listing Rules as the two tenancy agreements were negotiated separately with reference to the then prevailing rental rates for similar properties, each of them involves properties at different location in the PRC and were on separate commercial terms and not inter-dependent on each other.

Given that the annual rental payable by the Lifestyle Properties Group under the PRC (Shanghai) Tenancy Agreement is RMB302,400 (equivalent to approximately HK$362,880) and the highest of the applicable percentage ratios for such annual rental under the Listing Rules is less than 0.1% on an annual basis, the transaction contemplated under the PRC (Shanghai) Tenancy Agreement is exempt from the reporting, annual review, announcement and shareholders' approval requirements applicable to continuing connected transactions under Chapter 14A of the Listing Rules on the basis that it falls within the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules.

**(4) PRC (Shenyang) Tenancy Agreement**

SY Foreversmart (a wholly owned subsidiary of our Company) is currently leasing the Shenyang Property (as defined below) to Shenyang Yifu (a member of the Lifestyle Properties Group). SY Foreversmart as landlord entered into a tenancy agreement (the "**PRC (Shenyang) Tenancy Agreement**") with Shenyang Yifu as tenant on 16 March 2016 with respect to the tenancy of the following property. The principal terms of the PRC (Shenyang) Tenancy Agreement are set out below:

| | | |
|---|---|---|
| **Date** | : | 16 March 2016 |
| **Parties** | : | (1) SY Foreversmart as landlord and owner of the Shenyang Property (as defined below)<br><br>(2) Shenyang Yifu as tenant |
| **Location of the property subject to the PRC (Shenyang) Tenancy Agreement** | : | an office unit on Level 3 of a commercial building, No. 68 Zhongjie Road, Shenhe District, Shenyang, Liaoning Province, the PRC with a total gross floor area of approximately 205 sq.m. (the "**Shenyang Property**") |
| **Term** | : | From 21 February 2016 up to and including 20 February 2018 |
| **Monthly rental payable by the tenant** | : | RMB9,225 (inclusive of management fees, water, electricity and air-conditioning charges in respect of the Shenyang Property which shall be borne by SY Foreversmart)<br><br>The Property Valuer has reviewed the terms of the PRC (Shenyang) Tenancy Agreement and is of the opinion that the rent payable by Shenyang Yifu under the PRC (Shenyang) Tenancy Agreement is fair and reasonable and consistent with prevailing market rates for similar serviced office at similar locations as at the date of the PRC (Shenyang) Tenancy Agreement. |
| **Use** | : | The Shenyang Property shall only be used for office purpose |

Upon Listing, the Shenyang Property will continue to be used by the Lifestyle Properties Group as its place of business in Shenyang, the PRC. Our Directors (including our independent non-executive Directors), after taking into account the view of the independent property valuer, consider that the rent payable by Shenyang Yifu under the PRC (Shenyang) Tenancy Agreement is fair and reasonable and consistent with prevailing market rates for similar serviced office at similar locations as at the date of the PRC (Shenyang) Tenancy Agreement. Our Directors (including our independent non-executive Directors) are of the view that the PRC (Shenyang) Tenancy Agreement has been entered into on normal commercial terms and the terms of the PRC (Shenyang) Tenancy Agreement are fair and reasonable and in the interests of our Company and Shareholders as a whole.

The historical figures for this transaction for the Track Record Period were approximately RMB83,025 (equivalent to approximately HK$99,630) for the year ended 31 December 2014 and RMB110,700 (equivalent to approximately HK$132,840) for the year ended 31 December 2015.

As explained above, the PRC (Shanghai) Restaurant Tenancy Agreement has not been aggregated with the PRC (Shenyang) Tenancy Agreement for the purpose of classification of connected transactions under Rule 14A.81 of the Listing Rules. Given that the annual rental payable by the Lifestyle Properties Group under the PRC (Shenyang) Tenancy Agreement is RMB110,700 (equivalent to approximately HK$132,840) and the highest of the applicable percentage ratios for such annual rental under the Listing Rules is less than 0.1% on an annual basis, the transaction contemplated under the PRC (Shenyang) Tenancy Agreement is exempt from the reporting, annual review, announcement and shareholders' approval requirements applicable to continuing connected transactions under Chapter 14A of the Listing Rules on the basis that it falls within the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules.

**(5) Entrusted Loan Agreement**

Shanghai Ongoing (a 65% indirectly owned subsidiary of our Company) as lender entered into an entrusted loan agreement (the "**Entrusted Loan Agreement**") with Mizuho Bank, Ltd. as lending agent and Shanghai Joinbuy as borrower, on 28 December 2011 for the provision of an entrusted loan (the "**Entrusted Loan**") with the principal amount of up to RMB80,000,000 (equivalent to approximately HK$96,000,000) for a term of 12 months. Shanghai Ongoing and Shanghai Joinbuy have subsequently agreed to extend the term of the Entrusted Loan to 27 December 2013, 26 December 2014, 25 December 2015 and 23 December 2016 respectively. As at the Latest Practicable Date, the maturity date of the Entrusted Loan is 23 December 2016 and the outstanding principal amount of the Entrusted Loan is RMB30,000,000 (equivalent to approximately HK$36,000,000). The principal terms of the Entrusted Loan Agreement are set out below:

| | | |
|---|---|---|
| **Date** | : | 28 December 2011 |
| **Parties** | : | (1) Shanghai Ongoing as lender |
| | | (2) Mizuho Bank, Ltd. as lending agent |
| | | (3) Shanghai Joinbuy as borrower |

| | | |
|---|---|---|
| **Loan principal amount** | : | Up to RMB80,000,000 (equivalent to approximately HK$96,000,000) |
| **Outstanding principal amount as at the Latest Practicable Date** | : | RMB30,000,000 (equivalent to approximately HK$36,000,000) |
| **Term** | : | 12 months from the date of the Entrusted Loan Agreement. Shanghai Ongoing and Shanghai Joinbuy have subsequently agreed in December 2012, 2013, 2014 and 2015 to extend the term of the Entrusted Loan to 27 December 2013, 26 December 2014, 25 December 2015 and 23 December 2016 respectively. As at the Latest Practicable Date, the maturity date of the Entrusted Loan is 23 December 2016. |
| **Purpose** | : | To finance the operation of Shanghai Joinbuy |
| **Interest** | : | As determined by Shanghai Ongoing and Shanghai Joinbuy with reference to the benchmark lending rate in the People's Bank of China, current interest rate is 3.5% per annum |
| **Handling charges** | : | 0.06% per annum, the handling charges is to be paid by Shanghai Joinbuy to Mizuho Bank, Ltd. |

The historical figures of this loan amount for the Track Record Period were approximately RMB80,000,000 (equivalent to approximately HK$96,000,000) for the year ended 31 December 2013, RMB70,000,000 (equivalent to approximately HK$84,000,000) for the year ended 31 December 2014, and RMB30,000,000 (equivalent to approximately HK$36,000,000) for the year ended 31 December 2015.

The terms of the Entrusted Loan Agreement, including the interest rate applicable, were agreed by the parties after arm's length negotiations having taken into account the prevailing market interest rates and practices. Our Directors (including our independent non-executive Directors) are of the view that the Entrusted Loan Agreement has been entered into on normal commercial terms and the terms of the Entrusted Loan Agreement are fair and reasonable and in the interests of our Company and Shareholders as a whole.

Shanghai Ongoing is a 65% indirectly owned subsidiary of our Company and the remaining 35% equity interest is owed as to 5% by Joinbuy Group and 30% by Joinbuy Investment. Shanghai Joinbuy is owned as to 50% by an indirect wholly-owned subsidiary of our Company, 12% by Joinbuy Group and 38% by Joinbuy Investment.

Joinbuy Group and Joinbuy Investment (whose controlling shareholder is Joinbuy Group), being substantial shareholders of Shanghai Ongoing, are connected persons of our Company. As Shanghai Joinbuy is owned as to 12% by Joinbuy Group and 38% by Joinbuy Investment, Shanghai Joinbuy is an associate of Joinbuy Investment and a connected person of our

Company. The provision of the Entrusted Loan by Shanghai Ongoing to Shanghai Joinbuy according to the Entrusted Loan Agreement constitutes the provision of financial assistance by our Company to a connected person, and therefore constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the Entrusted Loan Agreement is less than 1% and the transaction is a connected transaction only because it involves connected person at the subsidiary level, the transaction contemplated under the Entrusted Loan Agreement is exempt from the reporting, annual review, announcement and shareholders' approval requirements applicable to continuing connected transactions under Chapter 14A of the Listing Rules on the basis that it falls within the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules.

So far as was known to any Director or chief executive of our Company, immediately following completion of the Spin-off, based on the information available on the Latest Practicable Date, the following persons will have an interest and/or a short position (as applicable) in our Shares or underlying Shares or debentures of our Company that would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or will be expected, directly or indirectly, to be interested in 10% or more of the issued voting shares of any other member of our Group, once our Shares are listed on the Stock Exchange (assuming that their shareholdings in Lifestyle remain unchanged on the Distribution Record Date):

**Interests and long positions in Shares**

| Name of Shareholder | Capacity | Number of Shares held or interested | Approximate percentage of interest (%) |
|---|---|---|---|
| Mr. Thomas Lau | Beneficial owner | 66,051,460 | 4.12 |
| | Interest of controlled corporations *(Note 1)* | 540,000,000 | 33.70 |
| | Interest of controlled corporation *(Note 2)* | 222,350,332 | 13.87 |
| United Goal | Beneficial owner *(Notes 1 and 5)* | 540,000,000 | 33.70 |
| Asia Prime | Interest of controlled corporation *(Notes 3 and 5)* | 540,000,000 | 33.70 |
| Dynamic Castle | Beneficial owner *(Notes 2 and 5)* | 222,350,332 | 13.87 |
| Bellshill Investment Company | Beneficial owner *(Note 4)* | 371,122,958 | 23.16 |
| Qatar Holding LLC | Interest of controlled corporation *(Note 4)* | 371,122,958 | 23.16 |
| Qatar Investment Authority | Interest of controlled corporations *(Note 4)* | 371,122,958 | 23.16 |
| FMR LLC | Investment manager | 114,490,500 | 7.14 |

*Notes:*

1. Following completion of the Spin-off and assuming its shareholding in Lifestyle remains unchanged on the Distribution Record Date, United Goal will hold 540,000,000 Shares. United Goal is ultimately owned as to 80% by Mr. Thomas Lau through Asia Prime and as to 20% by a family trust of which Mr. Lau Luen Hung, Joseph and certain of his family members are eligible beneficiaries. By virtue of the SFO, Mr. Thomas Lau is deemed to be interested in the same parcel of Shares in which United Goal will be interested.

2. Following completion of the Spin-off, Dynamic Castle, which is wholly-owned by Mr. Thomas Lau, will hold 222,350,332 Shares assuming that its shareholding in Lifestyle remains unchanged on the Distribution Record Date. By virtue of the SFO, Mr. Thomas Lau is deemed to be interested in the same parcel of Shares held by Dynamic Castle.

3. Asia Prime, a company wholly-owned by Mr. Thomas Lau, holds 80% of the entire issued share capital of United Goal. By virtue of the SFO. Asia Prime is deemed to be interested in the same parcel of Shares comprising 540,000,000 Shares in which United Goal is interested as beneficial owner following completion of the Spin-off (assuming that its shareholding in Lifestyle remain unchanged on the Distribution Record Date).

4. Bellshill Investment Company is a wholly-owned subsidiary of Qatar Holding LLC, which is wholly-owned by Qatar Investment Authority. By virtue of the SFO, Qatar Holding LLC and Qatar Investment Authority are deemed to be interested in the same parcel of Shares comprising 371,122,958 Shares held by Bellshill Investment Company as beneficial owner following completion of the Spin-off (assuming that its shareholding in Lifestyle remain unchanged on the Distribution Record Date).

5. Mr. Thomas Lau is a director of United Goal and the sole director of Asia Prime and Dynamic Castle.

**Interests in issued voting shares of other members of our Group**

| Name of shareholder | Name of members of our Group | Capacity | Number of shares held or interested/ Amount of capital contributed | Approximate percentage of interest (%) |
|---|---|---|---|---|
| Smart Success Investment Limited | Wingold *(Note 1)* | Beneficial owner | 4,000 | 40 |
| | Ample Sun *(Note 2)* | Beneficial owner | 4,000 | 40 |
| Joinbuy Investment | Shanghai Ongoing *(Note 3)* | Beneficial owner | US$3,600,000 | 30 |

*Notes:*

1. Wingold is owned as to 60% by Win Early Limited and 40% by Smart Success Investment Limited, which, save for being a substantial shareholder of Wingold and Ample Sun by virtue of its 40% and 40% shareholdings in these companies, is an Independent Third Party.

2. Ample Sun is owned as to 60% by Win Early Limited and 40% by Smart Success Investment Limited, which, save for being a substantial shareholder of Wingold and Ample Sun by virtue of its 40% and 40% shareholdings in these companies, is an Independent Third Party.

3. The equity interest in Shanghai Ongoing is owned as to 65% by Gainbest, 30% by Joinbuy Investment and 5% by Joinbuy Group. Save for their respective 30% and 5% interest in Shanghai Ongoing and their respective 38% and 12% interest in Shanghai Joinbuy, Joinbuy Investment and Joinbuy Group are Independent Third Parties.

Save as disclosed above, as at the Latest Practicable Date, none of our Directors or chief executive of our Company was aware of any other person who will, immediately following the completion of the Listing, have an interest or short position in our Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the issued voting shares of any other member of our Group.

## SHARE CAPITAL

The share capital of our Company immediately following completion of the Listing is set out in the table below. The table is prepared on the basis that the Listing has become unconditional. It, however, takes no account of any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to below or otherwise.

| | | |
|---|---|---|
| *Authorised share capital:* | | *HK$* |
| 4,000,000,000 | Shares as at the date of this listing document | 20,000,000.00 |
| *Issued and to be issued, fully paid or credited as fully paid:* | | |
| 60 | Shares in issue as at the date of this listing document | 0.30 |
| 1,602,586,440 | Shares to be issued under the Capitalisation Issue | 8,012,932.20 |
| *Total:* | | |
| 1,602,586,500 | | 8,012,932.50 |

## RANKING

The Shares are ordinary shares in the share capital of our Company and will rank equally in all respects with each other, and will qualify for all dividends, income and other distributions declared, made or paid and any other rights and benefits attaching or accruing to the Shares following the completion of the Listing.

## GENERAL MANDATE TO ISSUE SHARES

Subject to the Listing becoming unconditional, our Directors have been granted a general mandate to allot, issue and deal with such additional number of Shares not more than:

(a) 20% of the aggregate number of Shares in issue immediately following the completion of the Listing; and

(b) the aggregate number of Shares repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares as described below.

Our Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in the Shares pursuant to a right issue, scrip dividends scheme or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles.

This general mandate will expire:

(i) at the conclusion of our Company's next annual general meeting;

(ii) upon the expiry of the period within which our Company is required by any applicable laws of the Cayman Islands or the Articles to hold its next annual general meeting; or

(iii) when it is varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting,

whichever occurs first.

For further details of this general mandate, please see the paragraph headed "Written resolutions of the sole Shareholder on 24 June 2016" under the section headed "Further information about our Company and our subsidiaries" in Appendix V to this listing document.

**GENERAL MANDATE TO REPURCHASE SHARES**

Subject to the Listing becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase such number of Shares not more than 10% of the aggregate number of Shares in issue following the completion of the Listing.

This mandate only relates 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 such repurchases are made in accordance with all the applicable laws and requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Repurchase by our Company of our own Shares" under the section headed "Further information about our Company and our subsidiaries" in Appendix V to this listing document.

This general mandate will expire:

(i) at the conclusion of the next annual general meeting of our Company;

(ii) upon the expiry of the period within which our Company is required by any applicable laws of the Cayman Islands or the Articles to hold its next annual general meeting; or

(iii) when it is varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting,

whichever occurs first.

For further details of this general mandate, please see the paragraph headed "Written resolutions of the sole Shareholder on 24 June 2016" under the section headed "Further information about our Company and our subsidiaries" in Appendix V to this listing document.

## CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

The circumstances under which general meeting and class meeting are required are provided in the Articles. For details, please see the section headed "Summary of the constitution of our Company and Cayman Islands company law" in Appendix IV to this listing document.

*You should read this section in conjunction with our audited combined financial information, including notes thereto, as set forth in Appendix I ''Accountants' Report'' to this listing document. Unless otherwise stated, the financial information has been prepared in accordance with HKFRS. The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. Please refer to the section headed ''Risk factors'' of this listing document.*

## OVERVIEW

We are an established operator of department stores based in the PRC. We operate Shanghai Jiuguang, Suzhou Jiuguang and Dalian Jiuguang. The department stores we operate are "lifestyle" department stores, with middle to upper-end market positioning and through our Jiuguang Brand in the PRC. According to the CIC Report, Shanghai Jiuguang ranked third in terms of retail sales value in 2015 in Shanghai's department store market with approximately 2.4% market share. Suzhou Jiuguang ranked fourth in terms of retail sales value in 2015 in Suzhou's department store market with approximately 2.7% market share. Our department stores are characterised by the "one-stop shopping", "shops-in-shop", and "customer oriented" concepts, which we aim to offer quality goods and services, customer convenience and a comfortable shopping environment. In addition, we are in the process of developing our new department store also under the Jiuguang Brand to be housed in a complex to be developed by us on Daning Road, Jing'an District, Shanghai in the PRC which is targeted to be completed in December 2018 (i.e. our Daning Project).

Our department stores offer a wide variety of goods ranging from daily necessities to luxury products as well as personal care services, such as hair and beauty salons, for meeting the needs of our customers. Depending on the location of the department stores, the merchandise are sold by means of concessionaire sales as well as direct sales and can be broadly categorised into apparels and fashion, cosmetics and accessories, household, toys and others, and food and confectionery. The merchandise mix and services provided by our department stores are reviewed and adjusted from time to time to enhance the shopping experience it provides and to attract new customers and retain existing customers with the goal of increasing turnover to our Group. We also lease space in our department stores to third party service providers, such as restaurants, for rental income. Furthermore, we receive service income from concessionaires and suppliers for displaying their products and billboards in our department stores.

Other than department stores, we also operate supermarkets in the PRC, two of which are located inside Shanghai Jiuguang and Suzhou Jiuguang. Also, our Group's first standalone supermarket in Shanghai was launched in July 2013 inside the "L'Avenue Shanghai", a high-end luxury shopping mall complex located in the Hongqiao Economic Development Zone of Shanghai. All of these supermarkets are operated under the Freshmart Brand. Our standalone supermarket represents our Group's effort to broaden the presence of our Freshmart Brand, as our Directors believe that the high-quality food and confectionary products offered at our supermarkets have been enjoying widespread popularity among customers at Shanghai Jiuguang.

We also operate two Wa San Mai in the PRC and one in Hong Kong. Wa San Mai are Japanese teppanyaki style restaurants, featuring Japanese style teppanyaki, hotpot, and sushi with a la carte dining areas as well as private rooms. We have also invested in an associate, which operates Royal China, with cuisine including the middle to upper-end Cantonese food and Longji, a Hong Kong style "cha chaan teng" (茶餐廳) in the PRC.

For the three years ended 31 December 2015, our Group recorded approximately HK$1,272.9 million, HK$1,355.8 million, and HK$1,381.3 million in turnover, and approximately HK$365.1 million, HK$324.8 million, and HK$306.0 million in net profit attributable to owner of our Company, respectively.

In order to diversify into and gain experience on operating in the department store market in Hebei Province in the PRC where we have no prior exposure, in 2008 and 2010, we made equity investment in a leading retailer group, the Beiren Group, based in Shijiazhuang, Hebei Province in the PRC resulting in our Investment in Beiren Group as at the Latest Practicable Date.

The Beiren Group operates department stores, supermarkets and electrical appliance stores, most of which are located in Shijiazhuang, Hebei Province in the PRC. During the Track Record Period, a substantial portion of our profits was derived from our associates, in particular, our Investment in Beiren Group. However, we do not have control over the business of Beiren Group. Please refer to the paragraph headed "Non-HKFRS measures" below regarding contribution of the Beiren Group to our Group.

We also hold 65% and 50% equity interests in Shanghai Ongoing and Shanghai Joinbuy, respectively. As at the Latest Practicable Date, Shanghai Ongoing is principally engaged in the business of department store operation through the Shanghai Jiuguang in Shanghai, the PRC while Shanghai Joinbuy carries on the business of holding the property of Shanghai Jiuguang in Shanghai, the PRC.

## BASIS OF PRESENTATION

Our combined statements of profit or loss and other comprehensive income, combined statements of financial position, combined statements of changes in equity and combined statements of cash flows for the Track Record Period as included in the Accountants' Report, the text of which is set out in Appendix I to this listing document, include the results of operations of the companies comprising our Group following the consummation of the Reorganisation, as if our Group had been in existence in its current form throughout the Track Record Period, or since the respective dates of incorporation or establishment of the members of our Group, or up to the respective dates of disposal, deregistration, dissolution or winding up when this is a shorter period.

We are principally engaged in the operation of department stores ("**Listing Business**"). Immediately prior to and after the Reorganisation, the Listing Business is ultimately controlled by Mr. Thomas Lau. Pursuant to the Reorganisation, the Listing Business is transferred to and held by our Company. The Reorganisation did not result in a change in management or the Controlling Shareholder of the Listing Business, Mr. Thomas Lau. Accordingly, the combined financial information of the companies now comprising our Group is presented using the carrying values of the Listing Business under the Controlling Shareholder for all periods presented, or since the respective dates of incorporation/establishment of the combining entities, or since the date when the combining companies first came under the control of the controlling shareholder, whichever is earlier. For the purpose of the Accountants' Report, our combined financial information has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. Please refer to the section headed "Reorganisation" of this listing document for details of the Reorganisation.

The combined financial information has been prepared in accordance with the HKFRSs issued by the HKICPA. The combined financial information has been prepared under the historical cost convention. Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on combination. We adopt the going concern basis in preparing the combined financial information. The principal accounting policies applied in the preparation of the combined financial information have been consistently applied during the Track Record Period, unless otherwise stated, as if the current group structure had been in existence throughout the relevant periods, or since the respective dates of incorporation or establishment of the relevant entities, or up to the respective dates of disposal, deregistration, dissolution or winding-up where this is a shorter period.

## GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL POSITION

Our Group's business, results of operations and financial conditions are affected by a number of factors, many of which are beyond our control, including but not limited to the following factors.

### We rely on our concessionaires to provide a variety of products and brands to generate a substantial amount of our turnover

We believe it is important to provide quality goods and services and to optimise brand mix to satisfy growing and changing consumer demand. We offer a variety of products to our customers largely through concessionaires of our department stores and supermarkets. The success of our business and growth strategy, therefore, depends to a significant extent on our relationships with our concessionaires. In the event that a significant number of major brand concessionaires terminate or fail to renew their contracts with us and we fail to find other suitable brand concessionaires as replacements, our sales and financial results could be adversely affected.

**Our results of operations are largely affected by the performance of the Beiren Group, over which business we do not have control as we only have a minority interest in those entities**

Our results of operations are largely affected by the performance of the Beiren Group, over which business we do not have control as we only have a minority interest in those entities. We derive a substantial portion of our profit during the Track Record Period from our Investment in Beiren Group.

Please refer to the paragraph headed "Non-HKFRS Measures" below regarding contribution of our Investment in Beiren Group to our Group.

We do not control the business of any of the member companies of the Beiren Group as we only have a non-controlling interest in these entities. The retail business operations of the Beiren Group are susceptible to any decrease in demand and prices for their respective products or decline or recession in the economy. If the PRC economy experiences a slowdown, the prospects, business and results of operations of the Beiren Group would be adversely affected, which in turn will have a material and adverse effect on our results of operations.

**Our success depends on our ability and the ability of our concessionaires to assess, identify and respond in a timely manner to constantly changing customer preferences**

Our business is subject to changing customer preferences. There can be no assurance that our merchandise selection, or that of our concessionaires, will accurately reflect customer preferences at any given time. If we or our concessionaires fail to assess accurately either the market for our merchandise or customers' purchasing or dining habits, our sales may be affected, which could have a material adverse impact on our business, financial condition and results of operations.

**VIP Customers account for a meaningful portion of our total sales proceeds**

Sales to VIP Customers have accounted for a meaningful and increasing portion of our total sales. For each of the three years ended 31 December 2015, sales to VIP Customers accounted for approximately 26.5%, 30.5%, and 31.1%, respectively, of our sales proceeds (net of tax). There is no assurance that our VIP Customers will continue to visit and purchase from our department stores and/or that promotional effects will continue to be welcomed by VIP Customers, in which case our sales and financial results could be adversely affected.

**If we cannot manage the risks related to our growth strategy, our future prospects may be limited and our future profitability could be affected**

We opened our first department store under the Jiuguang Brand in Shanghai in 2004. Since then, we have expanded into China's retail industry and operated a total of three department stores in the PRC as at the Latest Practicable Date while we plan to continue to expand our retail network in the PRC. However, there can be no assurance that our expansion strategy or the implementation of our plans will be successful, such as the cessation of the operation of Shenyang Jiuguang. There are a number of factors affecting our ability to open or acquire new department stores, restaurants or supermarkets including the availability of suitable sites, sufficient human resources, direct sales suppliers and concessionaires, skilled personnel, consumer demand, our ability to obtain the requisite government approvals in a timely manner and our ability to finance the expansion. If we are unable to manage our growth effectively, our future profitability may be adversely affected.

**The department store and supermarket business is highly competitive and we face further competition from multiple retail formats**

We believe that the PRC retail industry, in particular the operation of department stores and supermarkets, is highly competitive. We are not only facing direct competition from other international and domestic operators of department stores but also indirect competition from specialty stores and new retail formats such as online/mobile retail, O2O, shopping centres and outlets. Any increase in competition or price-wars waged by competitors will have a negative impact on our sales and profitability.

**Any downturn in the PRC economy may slow down our growth and profitability**

Substantially all our business assets and operations are in the PRC, and substantially all of our turnover is derived from our operations in the PRC. Our growth is dependent on consumer spending patterns in the PRC, which, in turn, are affected by the macro-economic conditions of the PRC. Changes in the PRC's political and social conditions, laws, regulations, policies and diplomatic relationships with other countries may have a material adverse effect on the business or financial condition of our Group.

## SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial information in conformity with the HKFRSs requires the management of our Group to adopt accounting policies and make estimates and assumptions that affect amounts reported in its financial information. Our Group's significant accounting policies, which are important for an understanding of the results of operations and financial condition of our Group, are set forth in detail in Appendix I "Accountants' Report" to this listing document. The policies have been consistently applied to all the years presented unless otherwise stated. In applying those accounting policies, management of our Group makes subjective and complex judgements that frequently require estimates about matters that are of an inherently uncertain nature and may change in subsequent periods. Our Group has adopted certain accounting policies that are significant to the preparation of our financial information:

**Investments in associates and a joint venture**

An associate is an entity over which our Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and the joint venture are incorporated in the Financial Information using the equity method of accounting. The associate and joint venture may use accounting policies that differ from those of our Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the associates' and the joint venture's accounting policies to those of our Group. Under the equity method, an investment in an associate or a joint venture is initially recognised in the combined statement of financial position at cost and adjusted thereafter to recognise our share of the profit or loss and other comprehensive income of the associate or joint venture. When our share of losses of an associate or joint venture exceeds our interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of our net investment in the associate or joint venture), our Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that our Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over our share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of our share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to our investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate or a joint venture of our Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Financial Information only to the extent of interests in the associate or joint venture that are not related to our Group.

**Turnover recognition**

Turnover is measured at the fair value of the consideration received or receivable. Turnover is reduced for estimated customer returns, rebates and other similar allowances. Turnover from sale of goods is recognised when the goods are delivered and titles have been passed, at which time all the following conditions are satisfied:

- our Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

- our Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of turnover can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to our Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Income from concessionaire sales is recognised upon sales of goods by the relevant shops based on certain percentage of turnover in accordance with the terms of contracts. When the concessionaires fail to meet the minimum guarantee income in accordance with the terms of contracts, the minimum guarantee amount is recognised as income.

Service income is recognised when services are provided.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to our Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to our Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Our accounting policy for recognition of turnover from operating leases is described in the accounting policy for leasing below.

**Property, plant and equipment**

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated in the combined statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with our accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

***Buildings under development for future owner-occupied purpose***

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

**Properties under development**

Properties under development are stated at the lower of cost and net realisable value. The cost comprises land, development and construction expenditure, borrowing costs capitalised and other direct costs attributable to the development. Net realisable value is the estimated selling price at which the property can be realised less related expenses.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***Our Group as lessor***

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an income in the period in which they are incurred.

***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

*Leasehold land and building*

When a lease includes both land and building elements, our Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to our Group unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the combined statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the combined statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Our Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where our Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which our Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of our Group's accounting policies, our Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**Income taxes**

As at 31 December 2013, 2014 and 2015, no deferred tax asset has been recognised on the tax losses of approximately HK$192.8 million, HK$272.2 million and HK$447.8 million, respectively, due to the unpredictability of future profit streams. The realisation of the deferred tax asset mainly depends on whether sufficient future assessable profits or taxable temporary differences will be available in the future. In cases where the estimated future assessable profits or taxable temporary difference are more than previously estimated, a material recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which the revised estimate takes place.

**Trade and other receivables**

Our Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. In determining whether there is objective evidence of allowance for bad and doubtful debts, our Group takes into consideration the collectability, aged analysis of trade and other receivables and estimation of future cash flows. The amount of the allowance for bad and doubtful debts is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows. Where the actual future cash flows are less than expected, an allowance for bad and doubtful debts may arise.

**Useful lives of property, plant and equipment**

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual or expected useful lives of property, plant and equipment is less than the original estimated useful lives or revision of estimated useful lives due to changes in commercial and technological environment, such difference will impact the periodic depreciation charge for the remaining revised useful lives.

## RESULTS OF OPERATIONS

The table below sets out the combined statements of profit or loss for the periods indicated:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 1,272,872 | 1,355,835 | 1,381,348 |
| Cost of sales | (329,456) | (347,003) | (366,771) |
| Gross profit | 943,416 | 1,008,832 | 1,014,577 |
| Other income, gains and losses | 178,934 | 166,985 | 118,249 |
| Selling and distribution costs | (676,633) | (783,010) | (731,296) |
| Administrative expenses | (143,876) | (137,820) | (153,237) |
| Investment income | 71,355 | 67,465 | 73,191 |
| Share of profit of a joint venture | 31,870 | 26,463 | 38,040 |
| Share of profits of associates | 338,824 | 371,148 | 370,237 |
| Other expenses | — | — | (2,845) |
| Finance costs | (27,418) | (43,585) | (26,908) |
| Profit before taxation | 716,472 | 676,478 | 700,008 |
| Taxation | (125,575) | (110,195) | (142,288) |
| Profit for the year | 590,897 | 566,283 | 557,720 |
| Profit for the year attributable to: | | | |
| Owners of our Company | 365,099 | 324,799 | 305,977 |
| Non-controlling interests | 225,798 | 241,484 | 251,743 |
| | 590,897 | 566,283 | 557,720 |

## DESCRIPTION OF SELECTED ITEMS OF THE COMBINED STATEMENTS OF PROFIT OR LOSS

***Turnover.*** Our turnover consists of four categories, namely turnover from direct sales of goods, income from concessionaire sales, service income, and rental income.

The following table illustrates the breakdown of our turnover during the Track Record Period:

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2013** | | **2014** | | **2015** | |
| | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* |
| Sales of goods — direct sales *(Note)* | 392,262 | 30.7 | 421,119 | 31.1 | 446,496 | 32.4 |
| Income from concessionaire sales | 732,688 | 57.6 | 779,102 | 57.4 | 769,655 | 55.7 |
| Service income | 52,994 | 4.2 | 51,385 | 3.8 | 55,804 | 4.0 |
| Rental income | 94,928 | 7.5 | 104,229 | 7.7 | 109,393 | 7.9 |
| | 1,272,872 | 100 | 1,355,835 | 100 | 1,381,348 | 100 |

For direct sales of department stores and supermarkets, we source and sell our own direct-purchase merchandise. Our direct sales segment also includes our self-operated restaurants in Hong Kong and the PRC.

*Note:* An analysis of the sales of goods — direct sales by business activities during the Track Record Period is set out as follows:

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2013** | | **2014** | | **2015** | |
| | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* |
| **Department stores (excluding supermarkets)** | 79,115 | 20.2 | 118,676 | 28.2 | 154,397 | 34.6 |
| **Supermarkets** | | | | | | |
| *Supermarkets located inside our Jiuguang department stores* | 199,686 | 50.9 | 173,383 | 41.2 | 167,555 | 37.5 |
| *Standalone supermarket* | 19,172 | 4.9 | 40,622 | 9.6 | 30,724 | 6.9 |
| **Restaurants** | 94,289 | 24.0 | 88,438 | 21.0 | 93,820 | 21.0 |
| | 392,262 | 100.0 | 421,119 | 100.0 | 446,496 | 100.0 |

The decrease in turnover of direct sales of our Group's supermarkets in the year ended 31 December 2015 comparing to that for the year ended 31 December 2014 was largely a result of the slowing economy, weakening consumer sentiment towards those generally higher-end merchandises that we offer at our supermarkets and intensified competition among different retail channels. In particular, the decline in turnover of direct sales at our standalone market (which commenced operation in June 2013) for the year ended 31 December 2015 comparing to that for the year ended 31 December 2014, apart from the change of consumer sentiment amid the slowing economy, was also impacted by certain promotional items introduced in 2014 for attracting traffic footfall to this new location which were no longer available in 2015.

The decline in the turnover of the direct sales for our supermarkets located inside our Jiuguang department stores for the year ended 31 December 2014 comparing to that for the year ended 31 December 2013 was mainly caused by a decline of sales at our Shanghai Jiuguang supermarket which was undergoing a renovation program during 2014. While our standalone supermarket only commenced operation in June 2013, the increase in its turnover of direct sales in 2014 was mainly a reflection of the full year effect of its operation.

Under concessionaire sales arrangements, we enter into concessionaire agreements with concessionaires to allow them to set up their own sales counters for their products in designated areas in our department stores and supermarkets. A concessionaire agreement usually specifies the types of products that are allowed to be sold by that concessionaire in each department store and supermarket. Income from concessionaire sales is calculated based on certain percentages of sales proceeds (before tax) and is subject to an agreed minimum amount.

Concessionaires and suppliers of direct sales pay an annual sponsorship fee to us to cover promotional costs and also pay a separate amount to lease product display space and billboards in our department stores, which are not compulsory but according to the needs of our concessionaires. Service income generated from such fees for each of the three years ended 31 December 2015 amounted to approximately HK$53.0 million, HK$51.4 million, and HK$55.8 million, respectively.

We also lease our department store space to third party service providers for rental income. Rental income for each of the three years ended 31 December 2015 amounted to approximately HK$94.9 million, HK$104.2 million and HK$109.4 million, respectively.

Our gross profit for each of the three years ended 31 December 2015 amounted to approximately HK$943.4 million, HK$1,008.8 million, and HK$1,014.6 million, respectively.

***Cost of sales.*** Our cost of sales mainly consists of costs of goods sold in relation to direct sales such as cosmetics and accessories and food and confectionery and other cost of sales. Other cost of sales mainly comprises rental being allocated in respect of Shanghai Jiuguang (Suzhou Jiuguang and Dalian Jiuguang own their own premises, and rental is not included in our other cost of sales). The following table illustrates the breakdown of our cost of sales during the Track Record Period:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Cost of goods sold | 253,145 | 277,474 | 293,266 |
| Other cost of sales | 76,311 | 69,529 | 73,505 |
| | 329,456 | 347,003 | 366,771 |

Our cost of sales amounted to approximately HK$329.5 million, HK$347.0 million and HK$366.8 million for each of the three years ended 31 December 2015, which is slightly higher than the increase in our turnover and therefore resulted in a slight drop in our gross profit margin for direct sales.

***Other income, gains and losses.*** Other income, gains and losses primarily consists of management fee income, project income, government subsidies, net exchange (loss) gain, credit card recharge, income from suppliers and lessees, and compensation for early termination of counters. The following table illustrates our other income, gains and losses during the Track Record Period:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Management fee income | 73,219 | 80,862 | 69,956 |
| Project income | 6,563 | 4,213 | 2,706 |
| Government subsidies | 21,441 | 10,929 | 6,218 |
| Net exchange (loss) gain | (1,604) | (975) | 8,920 |
| Credit card recharge | 11,749 | 21,968 | 22,879 |
| Income from suppliers and lessees | 13,955 | 14,000 | 13,051 |
| Compensation for early termination of counters | — | — | (10,974) |
| Others | 53,611 | 35,988 | 5,493 |
| | 178,934 | 166,985 | 118,249 |

Management fee income represents fee charged to sales counters for providing daily operational services such as cleaning and security.

Project income represents vetting fee received in relation to renovation of sales counter in our department stores.

Government subsidies represent the amount of government subsidies received by our Group from the PRC local authorities for subsidising our operational and promotional activities. All of these government subsidies had no specific conditions attached.

Credit card recharge income represents our net income from our concessionaires in relation to their use of the credit card services.

Income from suppliers and lessees represents the rebate received if we purchase up to certain amount from our direct suppliers and fee charged from our lessees for their use of our point of sales equipment.

Compensation for early termination of counters represents the provision of compensation for our direct suppliers and concessionaires in Shenyang Jiuguang in relation to its closure in December 2015.

Others represent mainly the miscellaneous income received from our concessionaires and direct suppliers including but not limited to warehousing fee, transportation fee, promotion fee and changing room fee. It also includes other one-off income and expense items which are not being classified separately.

***Selling and distribution costs.*** Our selling and distribution costs mainly consist of rent and rates, depreciation, staff costs, promotion and advertising expense and building operating expenses directly relating to the business operations. The following table illustrates the breakdown of our selling and distribution costs during the Track Record Period:

| | **For the year ended 31 December** | | | | | |
|---|---|---|---|---|---|---|
| | **2013** | | **2014** | | **2015** | |
| | *HK$'000* | *%* | *HK$'000* | *%* | *HK$'000* | *%* |
| Rent and rates | 170,434 | 25.2 | 167,757 | 21.4 | 175,485 | 24.0 |
| Depreciation | 142,887 | 21.1 | 192,467 | 24.6 | 157,377 | 21.5 |
| Staff costs | 135,034 | 20.0 | 140,791 | 18.0 | 142,213 | 19.4 |
| Promotion and advertising expenses | 69,255 | 10.2 | 102,327 | 13.1 | 85,937 | 11.8 |
| Building operating expenses | 159,023 | 23.5 | 179,668 | 22.9 | 170,284 | 23.3 |
| | 676,633 | 100.0 | 783,010 | 100.0 | 731,296 | 100.0 |

Rent and rates mainly represent the amount of rent we paid for our lease of premises for the operation of Shanghai Jiuguang and our standalone supermarket.

Depreciation mainly represents the amount of depreciation and amortisation of our department store properties and equipment.

Staff costs mainly represent salary and allowances paid for hiring sales staff for our department store operations.

Promotion and advertising expenses mainly represent the costs incurred for marketing and promotional events throughout each of the three years ended 31 December 2015.

Building operating expenses mainly represent utilities such as electricity and water, management fee paid to Shanghai Joinbuy, and other costs directly relating to our department store operations.

***Administrative expenses.*** Our administrative expenses mainly consist of back office staff costs, legal and professional fee and other office administration expenses. The following table illustrates the breakdown of our administrative expenses during the Track Record Period:

| | **For the year ended 31 December** | | | | | |
|---|---|---|---|---|---|---|
| | **2013** | | **2014** | | **2015** | |
| | *HK$'000* | % | *HK$'000* | % | *HK$'000* | % |
| Depreciation | 15,071 | 10.5 | 17,722 | 12.8 | 9,520 | 6.2 |
| Staff costs | 69,083 | 48.0 | 74,001 | 53.7 | 91,793 | 59.9 |
| Legal and professional fee | 2,054 | 1.4 | 1,458 | 1.1 | 1,593 | 1.1 |
| Consultancy fee | 14,555 | 10.1 | 15,740 | 11.4 | 16,390 | 10.7 |
| Others | 43,113 | 30.0 | 28,899 | 21.0 | 33,941 | 22.1 |
| | 143,876 | 100.0 | 137,820 | 100.0 | 153,237 | 100.0 |

Depreciation mainly represents the amount of depreciation of office equipment.

Staff costs mainly represent the amount of salary and allowance for back office administrative and supporting staff.

Legal and professional fee mainly represents fees paid to professional parties including our auditors and legal advisers in Hong Kong and the PRC.

Consultancy fee mainly represents fees payable to the Remaining Lifestyle Group for the management consulting services provided. This amount represents the remaining balance of the total consultancy fee charged, after deduction of the portion of fee (classified as staff costs) which was related to the amount of remuneration of our Directors allocated to our Group. These services will no longer be required upon completion of the Spin off and Listing of our Group.

Others mainly represent other back office administrative expenses such as printing, travelling and entertainment expenses.

***Investment income.*** Investment income consists of interest income on bank deposits and other interest income. The following table illustrates our investment income during the Track Record Period:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Interest income on bank deposits | 66,205 | 61,846 | 69,671 |
| Other interest income | 5,150 | 5,619 | 3,520 |
| | 71,355 | 67,465 | 73,191 |

***Share of profit of a joint venture.*** Our share of profit of a joint venture mainly consists of profit from Shanghai Joinbuy who is the lessor of the property at which Shanghai Jiuguang operates.

***Share of profit of associates.*** Share of profit of associates primarily attributable to profit from the Beiren Group. The following table illustrates our share of profit of associates during the Track Record Period:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Profit (loss) of associate | | | |
| — Beiren Group *(Note 1)* | 337,852 | 371,808 | 370,827 |
| — Dragon Sign Limited *(Note 2)* | 972 | (660) | (590) |
| | 338,824 | 371,148 | 370,237 |

*Note 1:* The share of profits of the Beiren Group includes results of our Group's 49% owned Beiren, 15.05% owned Beiguo and 49% owned Heibei Future Mall.

*Note 2:* Our Group owns 50% interest in Dragon Sign Limited which operates Longji and Royal China in the PRC through Sweetolive.

***Other expenses.*** Other expenses represent the expenses in relation to the Listing.

***Finance costs.*** Finance costs primarily consist of interests on bank borrowings and amount due to fellow subsidiaries. The following table illustrates our finance costs during the Track Record Period:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Interest on:** | | | |
| **Bank borrowings:** | | | |
| — wholly repayable within five years | 23,550 | 34,384 | 26,532 |
| — wholly repayable after five years | — | 29 | 35,338 |
| **Amounts due to fellow subsidiaries** | | | |
| — wholly repayable within five years | 179,353 | 170,147 | 161,785 |
| **Others** | 592 | 839 | 375 |
| | 203,495 | 205,399 | 224,030 |
| Less: Amounts capitalised in construction in progress | (176,077) | (161,814) | (197,122) |
| | 27,418 | 43,585 | 26,908 |

Finance costs mainly include interest on bank borrowings and amount due to fellow subsidiaries, which were mainly used for the capital expenditure incurred for the development and construction of the land and building for Shenyang Jiuguang in the relevant year and also for our Daning Project.

Borrowing costs capitalised during the year ended 31 December 2013 include interest on amount due to fellow subsidiaries in relation to the construction of Shenyang Jiuguang, Suzhou Jiuguang and our Daning Project, while those capitalised during the year ended 31 December 2014 and the year ended 31 December 2015 were attributable to interest on bank borrowings in addition to amount due to fellow subsidiaries, in relation to the development of our Daning Project. The capitalisation rate of the borrowing costs for each of the three years ended 31 December 2015 were approximately 5.05%, 5.25% and 5.10% per annum respectively.

***Taxation.*** Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Islands Companies Law and are currently exempt from payment of Cayman Islands income tax. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of each reporting period in the PRC and Hong Kong, where our subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Our Group makes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

All of our operating subsidiaries are either located in Hong Kong or the PRC. The Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits during the Track Record Period. The PRC subsidiaries of our Group are subject to enterprise income tax at a statutory rate of 25% during the Track Record Period.

Our effective tax rate, calculated as our income tax expenses incurred for continuing operations divided by our profit before tax from continuing operations, was approximately 17.5%, 16.3%, and 20.3% for each of the three years ended 31 December 2015 respectively.

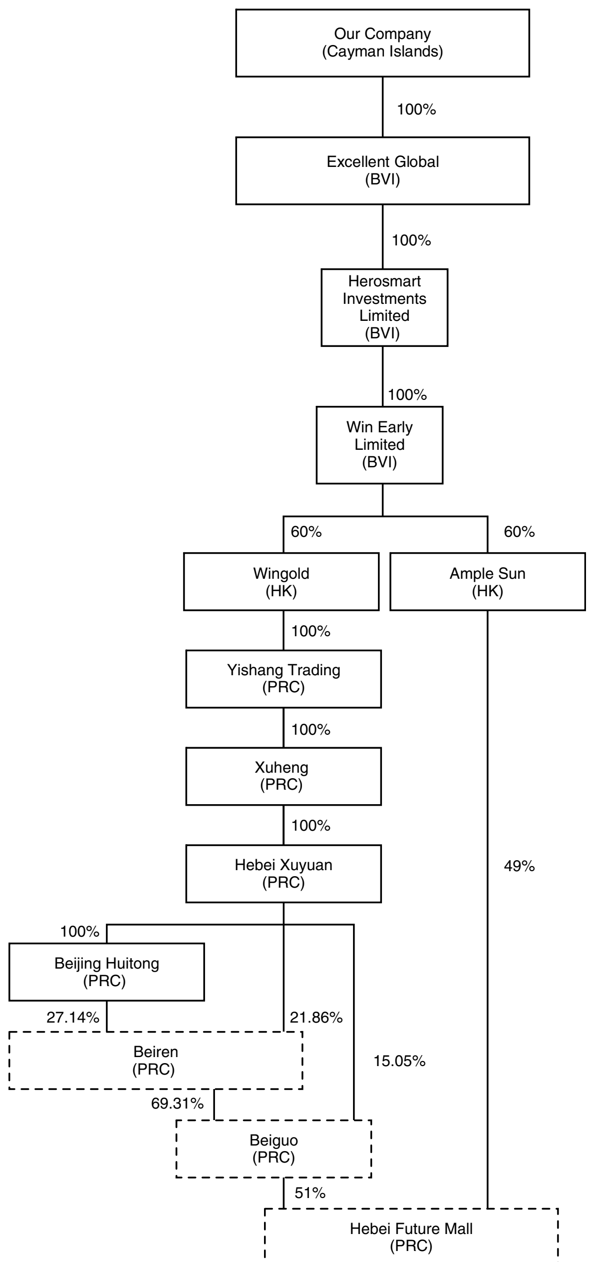
The following table sets forth our income tax expenses for the periods indicated:

| | **Year ended 31 December** | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Income tax expenses | 123,368 | 105,209 | 147,181 |
| Deferred tax charge (credit) | 2,207 | 4,986 | (4,893) |
| **Total income tax expenses** | 125,575 | 110,195 | 142,288 |

During the Track Record Period, we paid all relevant taxes and had no disputes or any unsolved tax issues with the relevant tax authorities.

## INVESTMENT IN THE BEIREN GROUP

We derive a substantial portion of our profit from our Investment in Beiren Group. The Beiren Group is considered our associate, and we have no control over its business, operations or financial policies. The principal activities of the Beiren Group is an investment holding of a group of companies engaging in the operation of department stores, supermarkets and other retailing activities and property leasing, while the principal activities of Hebei Future Mall is the holding and operation by its retail property located in Shijiazhuang, Hebei, the PRC. Set out below is the simplified illustration of our Group's investment in the Beiren Group:




*Note:* Beiren, Beiguo and Hebei Future Mall are companies of the Beiren Group.

The following information is the summarised financial information of the Beiren Group:

| | As at year ended 31 December | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Current assets | 7,299,030 | 7,558,800 | 7,518,270 |
| Non-current assets | 5,308,482 | 5,708,220 | 6,150,530 |
| Current liabilities | 8,309,585 | 8,423,681 | 8,374,419 |
| Non-current liabilities | 75,984 | 77,174 | 75,832 |

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | 8,079,094 | 8,131,158 | 8,825,993 |
| Profit for the year | 429,319 | 470,846 | 450,963 |

Share of profits of the Beiren Group contributed a significant portion of our Group's profit and accounting for approximately 57.2%, 65.7% and 66.5% of our Group's profit for each of the three years ended 31 December 2015. The following table compares our share of profits of the Beiren Group with our profit for the year during the Track Record Period:

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Share of profits of the Beiren Group | 337,852 | 371,808 | 370,827 |
| Profit for the year | 590,897 | 566,283 | 557,720 |

During the Track Record Period, the revenue of the Beiren Group has increased from approximately HK$8,079.1 million for the year ended 31 December 2013 to approximately HK$8,826.0 million for the year ended 31 December 2015, representing a CAGR of approximately 4.5%. While same store sales varied, sales growth of the Beiren Group during the Track Record Period and the operating environment has been challenging, the aforesaid increase was mainly attributable to the increasing retailing space and number of stores resulted from the Beiren Group's business expansion in recent years.

During the Track Record Period, profit for the year of the Beiren Group has increased from approximate HK$429.3 million for the year ended 31 December 2013 to approximately HK$451.0 million for the year ended 31 December 2015, representing a CAGR of approximately 2.5%. Amid the increasing competition and operating costs, the Beiren Group had been able to maintain its profit margin and its profit was largely in line with its revenue growth.

**Non-HKFRS Measures**

*Analysis of the financial performance of our Group excluding our associates*

As discussed above, given that a substantial portion of our profits have been derived from our associates, in particular, our Investment in Beiren Group, we set out below the analysis of our financial performance excluding the contribution from our associates.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Gross profit | 943,416 | 1,008,832 | 1,014,577 |
| Gross profit margin | 74.1% | 74.4% | 73.5% |
| Net profit *(Note 1 and 2)* | 161,416 | 102,374 | 84,071 |
| Net profit margin *(Note 3)* | 12.7% | 7.6% | 6.1% |

*Notes:*

(1) Represented by profit attributable to the owners of our Company deducting share of profits of associates then adding back the share of profits of associates attributable to 40% non-controlling interest, as our interest in the Beiren Group is held through the 60% owned subsidiaries, Wingold and Ample Sun. As such, 40% of the profits of associates attributable to 40% non-controlling interest should be added back to the profit attributable to the owners of our Company which has been excluded.

(2) The following table reconciles our net profit attributable to the owners of our Company under HKFRS to our definition of net profits attributable to owners of our Company excluding contribution from our associates in respect of our operations for the Track Record Period.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Profit attributable to owners of our Company | 365,099 | 324,799 | 305,977 |
| Adjusted for: | | | |
| Share of profits of associates | (338,824) | (371,148) | (370,237) |
| Share of profits of associates attributable to 40% non-controlling interests | 135,141 | 148,723 | 148,331 |
| Net profit attributable to owners of our Company excluding contribution from our associates | 161,416 | 102,374 | 84,071 |

The following table sets out our net profit attributable to owners of our Company excluding contribution from our Investments in Beiren Group for the Track Record Period.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Net profit attributable to owners of our Company excluding contribution from our Investment in Beiren Group | 162,388 | 101,714 | 83,481 |

(3) Net profit margin represents net profit attributable to owners of our Company excluding contribution from our associates divided by the turnover of our Group for the same period.

The decline in gross profit margin, net profit and net profit margin of our Group excluding the financial results of the Group's associates were principally attributable to the operating loss incurred by Shenyang Jiuguang. Since its opening in October 2013, Shenyang Jiuguang has been facing with a challenging and deteriorating operating environment with shrinking economic activities, oversupply of retailing space, weak local customer spending power and fragile consumer sentiment in Shenyang. It experienced a net loss of approximately HK$40.3 million, HK$153.2 million and HK$183.6 million for each of the three years ended 31 December 2015, respectively, mainly due to the operating expenses, which include cost of sales, depreciation and amortisation of its properties and equipment and staff costs that cannot be covered by its turnover. In light of the anticipated prolonged economic slowdown in Shenyang, our Group strategically closed down the store in December 2015, as part of its efforts to reallocate our Group's resources to other more promising stores or business areas.

Net profit attributable to owners of our Company excluding contribution from our associates and/or our Investments in Beiren Group and net profit margin attributable to owners of our Company excluding contribution from our associates and/or our Investments in Beiren Group are non-HKFRS financial data. Investors and/or shareholders should consider these non-HKFRS financial data in conjunction with the financial statements and other information in this listing document and should not rely solely on the net profit attributable to owners of our Company excluding contribution from our associates and/or our Investments in Beiren Group and net profit margin attributable to owners of our Company excluding contribution from our associates and/or our Investments in Beiren Group as a measure in assessing our overall financial performance. Net profit attributable to owners of our Company excluding contribution from our associates and/or our Investments in Beiren Group presented in this listing document may not be comparable to other similarly titled measurements of other companies.

*Analysis of the financial performance of our Group excluding the financial performance of Shenyang Jiuguang*

Shenyang Jiuguang commenced its operation in October 2013 but was closed down in December 2015. The following is a financial analysis on our financial performance excluding the operating results of Shenyang Jiuguang:

| | Group excluding Shenyang Jiuguang | | | Increase (decrease) to the Group | | |
|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2013 | 2014 | 2015 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 1,267,393 | 1,328,612 | 1,353,669 | (5,479) | (27,223) | (27,679) |
| Profit before taxation | 756,784 | 829,712 | 883,619 | 40,312 | 153,234 | 183,611 |
| Profit attributable to the owners of our Company | 405,411 | 478,033 | 489,588 | 40,312 | 153,234 | 183,611 |
| Net profit margin | 32.0% | 36.0% | 36.2% | 3.3% | 12.0% | 14.0% |

Excluding the operating results of Shenyang Jiuguang, the turnover of our Group would decrease by approximately 0.4%, 2.0% and 2.0% as compared with our current Group's turnover for each of the three years ended 31 December 2015.

Excluding the operating results of Shenyang Jiuguang, the profit before taxation would increase by approximately 5.6%, 22.7% and 26.2% as compared with the current Group's profit before taxation for each of the three years ended 31 December 2015.

Excluding the operating results of Shenyang Jiuguang, the profit attributable to owners of our Company would increase by approximately 11.0%, 47.2% and 60.0% as compared with our current Group's profit attributable to owners of our Company for each of the three years ended 31 December 2015.

The turnover of Shenyang Jiuguang is lower for the year ended 31 December 2013 because Shenyang Jiuguang did not commence its operation until October 2013. Given that the operation environment is unfavourable since the opening of Shenyang Jiuguang, certain concessionaires were not able to achieve their minimum commission target for the year ended 31 December 2014 and 2015.

Shenyang Jiuguang experienced an operating loss for each of the three years ended 31 December 2015 mainly due to the operating expenses, which include cost of sales, depreciation and amortisation of its properties and equipments and staff costs, that cannot be covered by its turnover.

It is noted that after the closure of Shenyang Jiuguang in December 2015, it would continue to incur expenses including depreciation expenses, building operating expenses, as well as administrative expenses such as staff costs, in order to maintain some general back office operations.

Turnover, profit before taxation, profit attributable to the owners of the Company and net profit margin excluding the financial performance of Shenyang Jiuguang are non-HKFRS financial data. Investors should consider these non-HKFRS financial data in conjunction with the financial statements and other information in this listing document and should not rely solely on these data as a measure in assessing our overall financial performance. The data presented in this section may not be comparable to other similarly titled measurements of other companies.

## REVIEW OF HISTORICAL OPERATING RESULTS

### Year ended 31 December 2014 compared to year ended 31 December 2013

***Turnover.*** For the year ended 31 December 2014, our turnover was approximately HK$1,355.8 million, an increase of approximately 6.5%, from HK$1,272.9 million for the year ended 31 December 2013. The increase was mainly due to the full year contribution from Shenyang Jiuguang and our standalone supermarket under the Freshmart Brand, which were opened in October 2013 and July 2013 respectively. For the year ended 31 December 2014, our turnover from direct sales was approximately HK$421.1 million, an increase of approximately 7.4%, from HK$392.3 million for the year ended 31 December 2013. The increase was mainly due to full year contribution from our standalone supermarket opened in July 2013. For the year ended 31 December 2014, our income from concessionaire sales was approximately HK$779.1 million, an increase of 6.3%, from HK$732.7 million for the year ended 31 December 2013. The increase was mainly due to increased number of concessionaires of our Group due to the opening of Shenyang Jiuguang in October 2013 and standalone supermarket in July 2013 respectively. For the year ended 31 December 2014, service income was approximately HK$51.4 million, a decrease of 3.0%, from HK$53.0 million for the year ended 31 December 2013, which was due to decrease of billboard advertisement income from Shanghai Jiuguang. For the year ended 31 December 2014, rental income was approximately HK$104.2 million, an increase of approximately 9.8% from HK$94.9 million for the year ended 31 December 2013. The increase was mainly due to additional income from renting out space at Shenyang Jiuguang and our standalone supermarket.

***Cost of sales.*** For the year ended 31 December 2014, our costs of sales was approximately HK$347.0 million, an increase of 5.3%, from approximately HK$329.5 million for the year ended 31 December 2013. The increase was in line with the increased direct sales due to the opening of Shenyang Jiuguang and our standalone supermarket in October 2013 and July 2013 respectively, but was partially offset by the decrease in other cost of sales resulting from lower rental cost for Shanghai Jiuguang.

***Other income, gains and losses***. For the year ended 31 December 2014, our other income, gains and losses recorded a gain of approximately HK$167.0 million, a decrease of approximately 6.7%, from a gain of approximately HK$178.9 million for the year ended 31 December 2013, primarily due to a decrease of government subsidies in the PRC from approximately HK$21.4 million for the year ended 31 December 2013 to approximately HK$10.9 million for the year ended 31 December 2014 and a decrease for the year ended 31 December 2014 of miscellaneous income.

***Selling and distribution costs.*** For the year ended 31 December 2014, our selling and distribution costs were approximately HK$783.0 million, an increase of approximately 15.7%, from HK$676.6 million for the year ended 31 December 2013. The increase was primarily due to the full-year impact of the operation of Shenyang Jiuguang, which had resulted in higher promotion costs and higher depreciation and amortisation on the department store properties and equipment. The increase was also caused by an increase in rental costs incurred for our standalone supermarket under the Freshmart Brand opened in July 2013.

***Administrative expenses.*** For the year ended 31 December 2014, our administrative expenses were approximately HK$137.8 million, a decrease of approximately 4.2% from approximately HK$143.9 million for the year ended 31 December 2013. The decrease was primarily due to other administrative expenses in relation to the pre-operating and opening expenses of Shenyang Jiuguang incurred for the year ended 31 December 2013 but not for the year ended 31 December 2014.

***Investment income.*** For the year ended 31 December 2014, our investment income was approximately HK$67.5 million, a decrease of approximately 5.5% from approximately HK$71.4 million for the year ended 31 December 2013. The decrease was primarily due to a decrease of interest income on bank deposits from approximately HK$66.2 million for the year ended 31 December 2013 to approximately HK$61.8 million for the year ended 31 December 2014.

***Share of profit of a joint venture.*** For the year ended 31 December 2014, our share of profit of a joint venture, namely Shanghai Joinbuy, of which our Group owns an effective equity stake of 50% was approximately HK$26.5 million, a decrease of approximately 17.0% from approximately HK$31.9 million for the year ended 31 December 2013. The decrease was primarily due to lower rental income recorded for the year ended 31 December 2014 being offset by the increase in management fee received.

***Share of profits of associates.*** For the year ended 31 December 2014, our share of profits of associates was approximately HK$371.1 million, an increase of approximately 9.5%, from approximately HK$338.8 million for the year ended 31 December 2013. The increase was primarily due to an increase in profit associated with the Beiren Group due to expansion of the business of the Beiren Group.

***Finance costs.*** For the year ended 31 December 2014, our finance costs were approximately HK$43.6 million, an increase of approximately 59.0% from approximately HK$27.4 million for the year ended 31 December 2013. The increase in finance costs charged to profit or loss was primarily due to cessation of capitalisation of borrowing costs in respect of Shenyang Jiuguang upon commencement of business in October 2013.

***Taxation.*** For the year ended 31 December 2014, income tax expense was approximately HK$110.2 million, a decrease of approximately 12.2% from approximately HK$125.6 million for the year ended 31 December 2013. The decrease was primarily due to the utilisation of tax losses previously not recognised for the year ended 31 December 2013 attributable to Suzhou Jiuguang.

***Profit attributable to owners of our Company.*** Due to the above factors, including the operating loss sustained by Shenyang Jiuguang during its first full year operation, profit attributable to owners of our Company for the year ended 31 December 2014 decreased approximately 11.0% to approximately HK$324.8 million from approximately HK$365.1 million for the year ended 31 December 2013.

**Year ended 31 December 2015 compared to year ended 31 December 2014**

***Turnover.*** For the year ended 31 December 2015, our turnover was approximately HK$1,381.3 million, an increase of approximately 1.9%, from HK$1,355.8 million for the year ended 31 December 2014. The increase was mainly driven by positive sales growth recorded at Shanghai Jiuguang and Suzhou Jiuguang. For the year ended 31 December 2015, our turnover from direct sales was approximately HK$446.5 million, an increase of approximately 6.0%, from HK$421.1 million for the year ended 31 December 2014. The increase was mainly due to full-year contribution from Wa San Mai in Shanghai which was opened at the end of 2014. For the year ended 31 December 2015, our income from concessionaire sales was approximately HK$769.7 million, a decrease of 1.2%, from HK$779.1 million for the year ended 31 December 2014. The decrease was partly due to RMB depreciation in 2015 resulting a lower figure when translating into Hong Kong Dollars even though the concessionaire sale in RMB remained largely stable in 2015 as compared to 2014. For the year ended 31 December 2015, service income was approximately HK$55.8 million, an increase of 8.6%, from HK$51.4 million for the year ended 31 December 2014. The increase was mainly due to increase in sponsorship fees from Shanghai Jiuguang due to increase in the number of concessionaries. For the year ended 31 December 2015, rental income was approximately HK$109.4 million, an increase of approximately 5.0% from HK$104.2 million for the year ended 31 December 2014. The increase was mainly due to more space being leased out at Shanghai Jiuguang and Suzhou Jiuguang.

***Cost of sales.*** For the year ended 31 December 2015, our costs of sales is approximately HK$366.8 million, an increase of 5.7%, from approximately HK$347.0 million for the year ended 31 December 2014. The increase in costs of goods sold was in line with the growth of direct sales. The increase in other cost of sales was due to the higher allocated rental cost recorded.

***Other income, gains and losses***. For the year ended 31 December 2015, our other income, gains and losses was approximately HK$118.2 million, a decrease of approximately 29.2% from approximately HK$167.0 million for the year ended 31 December 2014, primarily due to the approximately HK$11.0 million for compensation for early termination of counters in relation to the closure of Shenyang Jiuguang and a decrease in management fee of approximately HK$8.8 million at Shenyang Jiuguang mainly due to waiver of management fees to facilitate the store closure. The decrease was also caused by a decrease of approximately HK$4.7 million in government subsidies in the PRC. Decrease of approximately HK$30.5 million for items classified as "Others" was mainly due to (i) HK$11.2 million impairment loss for leasehold improvement in relation to the closure of Shenyang Jiuguang; and (ii) absence of the one-off income of approximately HK$6.3 million recorded for Suzhou Jiuguang in 2014 in relation to reversal of overprovision for credit card charges and miscellaneous expenses in previous year. The above decreases were partially offset by a net exchange gain of approximately HK$8.9 million, compared to a net exchange loss of approximately HK$0.98 million in 2014.

***Selling and distribution costs.*** For the year ended 31 December 2015, our selling and distribution costs were approximately HK$731.3 million, a decrease of approximately 6.6%, from approximately HK$783.0 million for the year ended 31 December 2014. The decrease was primarily due to decrease in depreciation charges due to certain plant and machinery were fully depreciated and decrease in promotion expenses in relation to Shanghai Jiuguang operations.

***Administrative expenses.*** For the year ended 31 December 2015, our administrative expenses were approximately HK$153.2 million, an increase of approximately 11.2% from approximately HK$137.8 million for the year ended 31 December 2014. The increase was primarily due to additional staff costs associated with the closure of Shenyang Jiuguang during the year.

***Investment income.*** For the year ended 31 December 2015, our investment income was approximately HK$73.2 million, an increase of approximately 8.5% from approximately HK$67.5 million for the year ended 31 December 2014. The increase was primarily due to higher interest income on bank deposit resulting from higher interest rate and higher deposit sum.

***Share of profit of a joint venture.*** For the year ended 31 December 2015, our share of profit of a joint venture was approximately HK$38.0 million, an increase of approximately 43.7% from approximately HK$26.5 million for the year ended 31 December 2014. The increase was primarily due to higher rental income recorded for the year ended 31 December 2015.

***Share of profits of associates.*** For the year ended 31 December 2015, our share of profits of associates was approximately HK$370.2 million, which was largely stable as compared to the year ended 31 December 2014.

***Other expenses.*** For the year ended 31 December 2015, other expenses represented the listing expenses of HK$2.8 million.

***Finance costs.*** For the year ended 31 December 2015, our finance costs was approximately HK$26.9 million, a decrease of approximately 38.3% from approximately HK$43.6 million for the year ended 31 December 2014. The decrease in finance costs was primarily due to a decrease in interest expense as a result of repayment of loans related to Suzhou Jiuguang and Shenyang Jiuguang. Interest on bank borrowings raised during the year for our Daning Project had been capitalised and did not have impact to the amount charged to the profit and loss.

***Taxation.*** For the year ended 31 December 2015, income tax expense was approximately HK$142.3 million, an increase of approximately 29.1% from approximately HK$110.2 million for the year ended 31 December 2014. The higher PRC tax for the year ended 31 December 2015 was partly due to higher assessable profit at Shanghai Jiuguang and the low tax charges for the year ended 31 December 2014 at Suzhou Jiuguang due to an over-provision adjustment.

***Profit attributable to owners of our Company.*** Due to the above factors, profit attributable to owners of our Company for the year ended 31 December 2015 decreased 5.8% to approximately HK$306.0 million as compared with approximately HK$324.8 million for the year ended 31 December 2014. The profit decline in the year ended 31 December 2015 as compared to the year ended 31 December 2014 was mainly caused by the closing down costs of Shenyang Jiuguang but was partly offset by the positive sales and profit growth at Shanghai Jiuguang.

## COMBINED STATEMENTS OF FINANCIAL POSITION

| | As at 31 December | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-current assets** | | | |
| Property, plant and equipment | 3,458,383 | 3,649,493 | 3,934,012 |
| Prepaid lease payments | 3,833,124 | 3,625,067 | 2,855,712 |
| Interests in associates | 2,676,677 | 2,944,916 | 3,199,978 |
| Interest in a joint venture | 486,231 | 469,615 | 456,280 |
| Properties under development | — | — | 778,716 |
| Deferred tax assets | 1,613 | 1,801 | 360 |
| | 10,456,028 | 10,690,892 | 11,225,058 |
| **Current assets** | | | |
| Inventories | 38,044 | 41,798 | 38,090 |
| Prepaid lease payments | 97,863 | 97,941 | 80,204 |
| Trade and other receivables | 189,073 | 225,196 | 159,211 |
| Amount due from a joint venture | 230,570 | 98,858 | 35,400 |
| Amounts due from fellow subsidiaries | 24 | 17 | 62 |
| Financial assets at fair value through profit or loss | — | 44,856 | — |
| Bank balances and cash | 1,752,991 | 2,077,991 | 2,291,965 |
| | 2,308,565 | 2,586,657 | 2,604,932 |
| **Current liabilities** | | | |
| Trade and other payables | 1,335,633 | 1,208,971 | 1,117,692 |
| Amount due to a joint venture | 156,391 | — | 40,101 |
| Amounts due to fellow subsidiaries | 7,475,077 | 7,867,915 | 8,198,280 |
| Tax payable | 40,878 | 59,401 | 44,361 |
| Bank borrowings | 76,860 | 135,929 | 152,980 |
| | 9,084,839 | 9,272,216 | 9,553,414 |
| **Net current liabilities** | (6,776,274) | (6,685,559) | (6,948,482) |
| **Total assets less current liabilities** | 3,679,754 | 4,005,333 | 4,276,576 |

| | As at 31 December | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-current liabilities** | | | |
| Bank borrowings | 416,513 | 548,584 | 888,594 |
| Deferred tax liabilities | 25,082 | 30,256 | 23,922 |
| Amount due to a non-controlling shareholder of subsidiaries | 180,893 | 137,665 | 130,550 |
| | 622,488 | 716,505 | 1,043,066 |
| | 3,057,266 | 3,288,828 | 3,233,510 |
| **Capital and reserves** | | | |
| Share capital | — | — | — |
| Reserves | 1,974,137 | 2,082,707 | 1,913,799 |
| **Equity attributable to owners of the Company** | 1,974,137 | 2,082,707 | 1,913,799 |
| **Non-controlling interests** | 1,083,129 | 1,206,121 | 1,319,711 |
| | 3,057,266 | 3,288,828 | 3,233,510 |

**Description of certain items in the combined statements of financial position**

***Property, plant and equipment***

Our property, plant and equipment consists of buildings, leasehold improvements, plant and machinery, furniture, fixtures and equipment, motor vehicles and construction in progress.

The increase in property, plant and equipment for the year ended 31 December 2014 and 2015 was mainly due to an increase in construction in progress in respect of our Daning Project development.

***Prepaid lease payments***

Our prepaid lease payments comprises leasehold land in the PRC.

For the year ended 31 December 2015, our Group transferred approximately HK$778.7 million (representing the amounts of (i) prepaid lease payments of approximately HK$494.6 million; and (ii) construction in progress and other costs of approximately HK$284.1 million directly attributable to the construction and development of the two office towers which forms part of our Daning Project) to the balance of properties under development. Management intends to sell the two office towers in part or in whole when the sale permit is granted by the relevant PRC authorities. In the event that we sell or rent out to third party (other than for the department store operations or for purposes complementary to our department store operations) any part of our commercial complex after completion of our Daning Project, we shall comply with the terms of the Newco Non-compete Deed. For further details, please refer to the section headed “Relationship with our Controlling Shareholders and the Lifestyle Group” in this listing document.

***Inventories***

Our inventories primarily consist of department store and supermarket merchandise, which we purchased from our suppliers and sold through direct sales. Most of the merchandise offered in our department stores are primarily sold through concessionaire arrangements. The concessionaires will take their own inventory risk and those merchandise owned by them will not count as our inventory. The increase in the inventory balance from approximately HK$38.0 million as at 31 December 2013 to HK$41.8 million as at 31 December 2014 was mainly due to increase in inventory at Shanghai Jiuguang, which was in line with its sales growth. The decrease in the inventory balance from approximately HK$41.8 million as at 31 December 2014 to approximately HK$38.1 million as at 31 December 2015 was mainly due to decrease in inventory balance at Shenyang Jiuguang following cessation of its business in December 2015.

The following table sets out a summary of our inventory turnover for the periods indicated.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Inventory turnover days | 54.9 | 55.0 | 47.4 |

*Note:* Inventory turnover days are calculated as the ending balance of inventory, divided by cost of goods sold for the year, and multiplied by 365 days for the year ended 31 December 2013, 2014, and 2015.

Our inventory turnover days remain stable for the year ended 31 December 2014 compared with the year ended 31 December 2013. Our inventory turnover days decreased from approximately 55.0 days for the year ended 31 December 2014 to 47.4 days for the year ended 31 December 2015 mainly due to improving inventory control measures adopted by our Group in estimating sales volume of our direct sales and the decrease in inventory level due to the cessation of business of Shenyang Jiuguang in December 2015. Subsequent usage of inventory was approximately HK$29.5 million for the three months ended 31 March 2016, which was approximately 77.4% of the inventory balance as at 31 December 2015.

***Trade and other receivables***

Most of our customers pay by cash, credit card, or other method as set out in the paragraph headed "Customers" in the section "Business" of this listing document. Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Our trade receivables mainly consisted of receivables from bank for customers' credit card payment, service income receivables and rental income receivables from our lessees. The following table illustrates our trade receivables and other receivables as at the dates indicated:

| | As at 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Trade receivables | 44,169 | 41,654 | 42,694 |
| Less: allowance for doubtful debts | (1,042) | — | — |
| | 43,127 | 41,654 | 42,694 |
| Prepayments | 15,762 | 9,840 | 2,974 |
| Deposits paid | 3,047 | 2,084 | 1,961 |
| Value added tax ("**VAT**") receivable | 70,672 | 85,130 | 65,776 |
| Dividend receivable from an associate | — | 32,894 | — |
| Others | 56,465 | 53,594 | 45,806 |
| | 189,073 | 225,196 | 159,211 |

Our Group's retail sales to customers are mainly made in cash, through debit card or credit card payments without a defined credit policy. Our major trade receivables arise from credit card sales are normally settled in one to two business days in arrears while the rental income receivables are normally settled 30 days in arrears. The following is an ageing analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date, which approximates the respective turnover recognition dates:

| | As at 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| 0–30 days | 39,979 | 37,022 | 38,196 |
| 31–60 days | 2,285 | 2,595 | 1,507 |
| 60–90 days | 306 | 586 | 668 |
| Over 90 days | 557 | 1,451 | 2,323 |
| | 43,127 | 41,654 | 42,694 |

Included in our Group's trade receivable balance are debtors with aggregate carrying amount of HK$3.1 million, HK$4.6 million and HK$4.5 million which were past due as at 31 December 2013, 2014, and 2015 respectively for which our Group has not provided for impairment loss. Our Group did not hold any collateral over these balances.

| | As at 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| 31–60 days | 2,285 | 2,595 | 1,507 |
| 61–90 days | 306 | 586 | 668 |
| Over 90 days | 557 | 1,451 | 2,323 |
| | 3,148 | 4,632 | 4,498 |

The increase in trade receivables which were past due over 90 days as at 31 December 2014 was due to the fact that a provision of impairment (mostly for trade receivables of 90 days) in the amount of HK$1.0 million has been made for such receivables in 2013 and subsequently reversed in 2014 upon recovery of such amount from the debtor. No similar provision was made in 2014 as there was no recoverability issue for trade receivable which were past due over 90 days. The further increase in trade receivables which were past due over 90 days as at 31 December 2015 was mainly caused by a delay in providing the relevant VAT invoices by a lessee, which however was subsequently received and settled in March 2016. Our Group has not fully provided for all receivables over 90 days because historical experience indicated that such receivables would be recoverable from the relevant debtors. Our Group also has a designated team for following up the trade receivables.

The following table sets forth the turnover days of our trade receivables for the periods indicated.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Trade receivable turnover days | 4.3 | 4.0 | 4.1 |

*Note:* Trade receivable turnover days is calculated as the balance of trade receivables as at the end of the year, divided by the sales proceeds (net of tax) for the year and multiplied by 365 days for each of the three years ended 31 December 2015 respectively.

Trade receivable turnover days were largely stable during Track Record Period, ranging from 4.0 days to 4.3 days, because the trade receivables mainly consist of trade receivables from credit card sales and such transactions were generally settled within one to two business days by the banks. Subsequent settlement of trade receivables was approximately HK$41.7 million for the three months ended 31 March 2016, which was approximately 97.7% of the trade receivables as at 31 December 2015.

***Trade and other payables***

Our trade and other payables mainly consists of trade payables, construction payables, concessionaire sales payable, deferred income, rental deposits received, accrued expenses, VAT payable and interest payable.

The following table illustrates our trade and other payables as at the dates indicated.

| | As at 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Trade payables | 44,226 | 45,571 | 43,007 |
| Construction payables | 407,260 | 273,292 | 243,082 |
| Concessionaire sales payable | 563,643 | 586,830 | 517,203 |
| Deferred income | 120,324 | 119,781 | 120,407 |
| Rental deposits received | 50,430 | 53,214 | 51,905 |
| Accrued expenses | 34,033 | 34,083 | 53,816 |
| VAT payable | 42,121 | 20,719 | 11,784 |
| Interest payables | 760 | 426 | 1,155 |
| Others | 72,836 | 75,055 | 75,333 |
| | 1,335,633 | 1,208,971 | 1,117,692 |

The following table is an ageing analysis of trade payables presented based on the invoice date at the end of each period indicated.

| | As at 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| 0–30 days | 34,224 | 35,860 | 32,582 |
| 31–60 days | 5,451 | 4,202 | 3,333 |
| 61–90 days | 2,749 | 1,970 | 1,877 |
| Over 90 days | 1,802 | 3,539 | 5,215 |
| | 44,226 | 45,571 | 43,007 |

The credit period of trade payables and concessionaire sales payables is 30 days from the end of the relevant period and 35 days from the end of the month respectively. For the details of the settlement of the trade payables and concessionaries sales payables, please refer to the paragraph headed "Standard form agreements regarding our department stores and supermarkets operations" in the section headed "Business" of this listing document. Our Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

However, given that the amount of the actual purchase (in the case of direct suppliers) for the relevant period, or sales proceeds and other relevant fees (in the case of concessionaire sales) for the month shall first be finalised between our Group and our direct suppliers and concessionaires and thereafter our direct suppliers and concessionaires will issue invoice to our

Group for settlement purpose, the time required for the actual settlement of payment could be lengthened by (1) the time required for our Group and our direct suppliers or concessionaires to finalise and agree upon the actual final settlement amount for the relevant period or the month; and (2) the time required for our direct suppliers or concessionaires to issue invoice to our Group.

The following table sets forth our trade payable turnover days for the periods indicated.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Trade payable turnover days | 63.8 | 59.9 | 53.5 |

*Note:* Trade payable turnover days are calculated as the balance of trade payables as at the end of the year, divided by cost of goods sold for the year and multiplied by 365 days for each of the three years ended 31 December 2015 respectively.

Trade payable turnover days measure the number of days a company takes to pay its suppliers from the date on which the inventory was received. Turnover of trade payable days decreased from approximately 63.8 days for the year ended 31 December 2013 to 59.9 days for the year ended 31 December 2014 in order to strengthen trading relationships with suppliers during difficult market environment. Turnover of trade payable days decreased from approximately 59.9 days for the year ended 31 December 2014 to 53.5 days for the year ended 31 December 2015 was partly due to drop in trade payable balance at Shenyang Jiuguang following its cessation of business in December 2015. There have been no major disputes between our direct suppliers and our Group during the Track Record Period.

The following table sets forth the concessionaire sales payable turnover days for the period indicated.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Concessionaire sales payable turnover days | 81.5 | 81.2 | 73.2 |

*Note:* Concessionaire sales payable turnover days are calculated as the balance of payables to concessionaires as at the end of the year, divided by the gross sales proceeds (net of tax) from concessionaire sales for the year less commission income from concessionaire sales and multiplied by 365 days for each of the three years ended 31 December 2015 respectively.

Concessionaire sales payable turnover days decreased from approximately 81.5 days for the year ended 31 December 2013 to 81.2 days for the year ended 31 December 2014 to strengthen business relationship with concessionaires. Turnover days of our payables to concessionaires decreased from approximately 81.2 days for the year ended 31 December 2014 to 73.2 days for the year ended 31 December 2015 partly due to drop in balance of payables to concessionaires at Shenyang Jiuguang following its cessation of business in December 2015. There have been no major disputes between our concessionaires and our Group during the Track Record Period.

***Amounts due to fellow subsidiaries***

The amounts due to fellow subsidiaries were unsecured. Except for the amounts due to fellow subsidiaries of HK$131.7 million, HK$146.5 million and HK$166.1 million as at 31 December 2013, 2014 and 2015, respectively, which were trade nature, the remaining amounts were non-trade in nature. Except for amounts due to fellow subsidiaries of approximately HK$371.5 million and HK$3,081.6 million as at 31 December 2013 which bore fixed interest at 3.5% per annum and 5.25% per annum respectively, and an amount of HK$3,081.6 million as at 31 December 2014 and 2015 which bore interest at 5.25% per annum, the remaining balances were non-interest bearing. As part of the Reorganisation, except for the amount for HK$166.1 million as at 31 December 2015 that will be settled in cash, the remaining outstanding balance of amounts due to fellow subsidiaries will be settled prior to Listing by way of issue of shares of our Company to Lifestyle. Please refer to the section headed "Reorganisation" in this listing document.

## RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions during the Track Record Period carried out by our Group in the normal course of its business:

| **Related party transactions** | **Year ended 31 December** | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Rental and management fee paid to a joint venture | 246,394 | 224,802 | 245,367 |
| Loan interest income received from a joint venture | 3,576 | 3,561 | 3,011 |
| Loan interest expense paid to a joint venture | 592 | 839 | 375 |
| Interest expense paid to fellow subsidiaries (of which HK$166,453,000, HK$161,785,000 and HK$161,785,000 respectively, were capitalised) | 179,353 | 170,147 | 161,785 |
| Consultancy fees paid to fellow subsidiaries | 28,313 | 28,177 | 27,549 |

For analysis of related party transactions, please refer to note 37 "Related party disclosure" of the Accountants' Report as set out in Appendix I to this listing document in addition to the transactions detailed elsewhere in this listing document. Our Directors believe that such transactions were conducted on normal commercial terms and such terms were no less favourable to our Group than terms available to Independent Third Parties and were fair and reasonable and in the interests of our Shareholders as a whole.

**Net current liabilities and working capital sufficiency**

The following table sets forth our current assets, current liabilities and net current liabilities as at the dates indicated.

| | As at 31 December | | | As at 30 April |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Current assets** | | | | |
| Inventories | 38,044 | 41,798 | 38,090 | 35,602 |
| Prepaid lease payments | 97,863 | 97,941 | 80,204 | 81,224 |
| Trade and other receivables | 189,073 | 225,196 | 159,211 | 198,945 |
| Amount due from a joint venture | 230,570 | 98,858 | 35,400 | 35,850 |
| Amounts due from fellow subsidiaries | 24 | 17 | 62 | 5 |
| Financial assets at fair value through profit or loss | — | 44,856 | — | — |
| Bank balances and cash | 1,752,991 | 2,077,991 | 2,291,965 | 2,058,626 |
| | 2,308,565 | 2,586,657 | 2,604,932 | 2,410,252 |
| **Current liabilities** | | | | |
| Trade and other payables | 1,335,633 | 1,208,971 | 1,117,692 | 914,510 |
| Amount due to a joint venture | 156,391 | — | 40,101 | 13,876 |
| Amounts due to fellow subsidiaries | 7,475,077 | 7,867,915 | 8,198,280 | 8,105,815 |
| Tax payable | 40,878 | 59,401 | 44,361 | 10,936 |
| Bank borrowings | 76,860 | 135,929 | 152,980 | 137,000 |
| | 9,084,839 | 9,272,216 | 9,553,414 | 9,182,137 |
| **Net current liabilities** | (6,776,274) | (6,685,559) | (6,948,482) | (6,771,885) |

We had net current liabilities of approximately HK$6,776.3 million, HK$6,685.6 million, HK$6,948.5 million and HK$6,771.9 million as at 31 December 2013, 2014, and 2015 and 30 April 2016, respectively, due to current liabilities exceeding current assets as at the respective year ends.

These amounts primarily resulted from the amounts owing to fellow subsidiaries of our Group which were for our investments made in the PRC throughout each of the three years ended 31 December 2015 and the period ended 30 April 2016, and were unsecured and repayable on demand.

Assuming the Capitalisation Issue took place on 31 May 2016, there would be no outstanding amount owing by our Group to the Remaining Lifestyle Group, except for those arising from continued connected transactions and an amount of HK$4.3 million arising from a related party transaction (which will cease upon Spin-off), and our Group would record a net current assets of approximately HK$1,340.9 million as at 31 May 2016.

As of 30 April 2016, save as aforesaid or as otherwise disclosed in this section, the Group did not have outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

Based on the above, our Directors confirm that we have sufficient working capital for our requirements for at least the next 12 months from the date of this listing document, taking into consideration our available banking facility, and cashflow from our operations. The Sponsor confirms that they have obtained written confirmation from our Company that the working capital available to our Group is sufficient for at least the next 12 months from the date of this listing document and that they are satisfied that such confirmation has been given after due and careful enquiry by our Company.

## LIQUIDITY AND CAPITAL RESOURCES

We have historically met our liquidity requirements principally through a combination of cash flow from operations, internal resources, bank borrowings, and increases in our paid-in capital. Our principal uses of cash have been, and are expected to continue to be, operational costs and capital expenditure.

### Cash flow

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Net cash from operating activities | 535,862 | 480,601 | 406,867 |
| Net cash used in investing activities | (500,217) | (363,558) | (468,091) |
| Net cash from financing activities | 14,105 | 270,071 | 367,732 |
| Net increase in cash and cash equivalents | 49,750 | 387,114 | 306,508 |
| Effect of foreign exchange rate difference | 31,452 | (62,114) | (92,534) |
| Cash and cash equivalents at beginning of the year | 1,671,789 | 1,752,991 | 2,077,991 |
| Cash and cash equivalents at the end of the year | 1,752,991 | 2,077,991 | 2,291,965 |

**Cash flow from operating activities**

During the Track Record Period, we derived our cash from operating activities principally from the sales proceeds received from our direct sales customers and concessionaires. Our cash used in operating activities was mainly related to the payments for purchase costs of our direct sales products, payment of sales proceeds to our concessionaires and lessees, payment of rent for our leased properties, and staff costs and other administrative expenses.

Net cash from operating activities reflects our profit before income tax deducted by interests and income tax paid during the period and adjusted for non-cash items such as depreciation of property, plant and equipment, and the effects of changes in working capital items.

For the year ended 31 December 2013, we had net cash from operating activities in the amount of approximately HK$535.9 million. This was primarily due to cash generated from operations in the amount of approximately HK$591.6 million. Movements in working capital was mainly attributable to (i) an increase in trade and other payables of approximately HK$91.2 million, mainly due to opening of Shenyang Jiuguang and our standalone supermarket in Shanghai under the Freshmart Brand and (ii) a decrease in amount due from a joint venture of approximately HK$17.0 million, mainly due to decrease in prepaid rent to the joint venture.

For the year ended 31 December 2014, we had net cash from operating activities in the amount of approximately HK$480.6 million. This was primarily due to cash generated from operations in the amount of approximately HK$485.2 million. Movements in working capital was mainly attributable to (i) an increase in trade and other payables of approximately HK$43.0 million, mainly due to net increase in receipts of HK$47.0 million from prepaid card sales; and (ii) an increase in amount due from a joint venture of approximately HK$35.8 million, mainly due to increase in prepaid rent to the joint venture.

For the year ended 31 December 2015, we had net cash from operating activities in the amount of approximately HK$406.9 million. This was primarily due to cash generated from operations in the amount of approximately HK$493.6 million. Movements in working capital was mainly attributable to (i) a decrease in trade and other receivables of approximately HK$23.3 million, mainly due to closure of Shenyang Jiuguang in December 2015; (ii) a decrease in trade and other payables of approximately HK$25.0 million; (iii) a decrease in amount due from a joint venture of approximately HK$11.6 million; and (iv) an increase in amount due to a joint venture of approximately HK$40.1 million, mainly arising from rent and management fee payable to joint venture.

**Cash flow from investing activities**

For the year ended 31 December 2013, we had net cash used in investing activities in the amount of approximately HK$500.2 million. This was primarily due to purchase of property, plant and equipment of approximately HK$520.5 million, mainly in relation to payment of construction costs for Shenyang Jiuguang, and was partly offset by dividend received from an associate of approximately HK$24.8 million.

For the year ended 31 December 2014, we had net cash used in investing activities in the amount of approximately HK$363.6 million. This was primarily due to (i) purchase of property, plant and equipment of approximately HK$357.5 million, mainly attributable to payment of construction costs of Shenyang Jiuguang and our Daning Project; (ii) acquisition of financial assets at fair value through profit or loss of approximately HK$44.9 million in structured bank deposits which was partly offset by dividend received from an associate in the amount of approximately HK$22.8 million.

For the year ended 31 December 2015, we had net cash used in investing activities in the amount of approximately HK$468.1 million. This was primarily due to purchase of property, plant and equipment of approximately HK$641.4 million, mainly in relation to payment of construction costs for our Daning Project. It was however partly offset by (i) repayment of HK$47.2 million from a joint venture; (ii) receipt of dividend from a joint venture and an associate in the amount of HK$37.2 million and HK$54.3 million respectively; and (iii) proceeds from disposal of structured bank deposits in the amount of HK$44.9 million.

**Cash flow from financing activities**

For the year ended 31 December 2013, net cash from financing activities amounted to approximately HK$14.1 million. This was primarily due to (i) advances from fellow subsidiaries and a joint venture amounting to approximately HK$150.8 million and HK$61.5 million respectively; (ii) new bank borrowings raised of approximately HK$171.3 million and partially offset by (i) payment of finance cost of approximately HK$198.8 million; (ii) dividend payment to non-controlling shareholders of approximately HK$96.2 million; and (iii) repayment of banking borrowings of approximately HK$63.3 million.

For the year ended 31 December 2014, net cash from financing activities amounted to approximately HK$270.1 million. This was primarily due to (i) advances from fellow subsidiaries of approximately HK$378.1 million; and (ii) new bank borrowings raised of approximately HK$298.1 million and partially offset by (i) payment of finance cost of approximately HK$205.4 million; (ii) repayment of bank borrowings of approximately HK$93.5 million; (iii) dividend payment and repayment to non-controlling shareholders amounting to HK$89.0 million and HK$38.4 million respectively.

For the year ended 31 December 2015, net cash from financing activities amounted to approximately HK$367.7 million. This was primarily due to (i) advances from fellow subsidiaries of approximately HK$310.7 million; and (ii) new bank borrowings raised of approximately HK$566.1 million and partially offset by (i) payment of finance costs of approximately HK$224.0 million; (ii) repayment of bank borrowings of approximately HK$172.8 million; and (iii) dividend payment to non-controlling shareholders of approximately HK$88.8 million.

## INDEBTEDNESS

### Borrowings

The table below set forth our borrowings as at the dates indicated.

| | As at 31 December | | | As at 30 April |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Bank borrowings comprised bank loans and analysed as:** | | | | |
| Secured and guaranteed | — | 203,098 | 703,752 | 863,256 |
| Secured and unguaranteed | 493,373 | 481,415 | 337,822 | 324,191 |
| | 493,373 | 684,513 | 1,041,574 | 1,187,447 |
| **Carrying amount repayable based on contractual repayment dates:** | | | | |
| Current (within one year) | 76,860 | 135,929 | 152,980 | 137,000 |
| Non-current (more than one year but not exceeding five years) | 416,513 | 370,406 | 243,842 | 229,016 |
| Non-current (after five years) | — | 178,178 | 644,752 | 821,431 |
| | 493,373 | 684,513 | 1,041,574 | 1,187,447 |
| **Amounts due to fellow subsidiaries** | | | | |
| — unsecured and unguaranteed | 7,475,077 | 7,867,915 | 8,198,280 | 8,105,815 |
| **Amounts due to a non-controlling shareholder of subsidiaries** | | | | |
| — unsecured and unguaranteed | 180,893 | 137,665 | 130,550 | 132,168 |

The bank borrowings increased from HK$493.4 million in 2013 to approximately HK$684.5 million in 2014 and further increased to approximately HK$1,041.6 million in 2015 and HK$1,187.4 million as at 30 April 2016 was mainly for the development costs of our Daning Project.

The effective interest rates of the borrowings were ranging from approximately 5.9% to approximately 7.0% per annum, approximately 5.4% to approximately 6.6% per annum, approximately 4.3% to approximately 5.2% per annum and approximately 4.3% to approximately 5.2% per annum for each of the three years ended 31 December 2015 and 30 April 2016 respectively.

As at 30 April 2016, other than bank loans, amounts due to fellow subsidiaries and amounts due to a non-controlling shareholder of subsidiaries amounted to approximately HK$1,187.4 million, HK$8,105.8 million and HK$132.2 million respectively, we had no other borrowings.

As at 30 April 2016, our Group had the following outstanding bank loans:

| Loan amount | Maturity date | Interest rate | Secured | Pledge of asset | Unutilised amount | Outstanding amount |
|---|---|---|---|---|---|---|
| RMB390 million | September 2017 | 90% of the People's Bank of China benchmark interest rate ("**PBOC Rate**") | Yes | Our Group's certain property, plant and asset in Suzhou | NIL | RMB85.0 million |
| RMB400 million | November 2017 | 110% of the PBOC Rate | Yes | Our Group's certain property, plant and asset in Shenyang | NIL | RMB186.3 million |
| RMB2,450 million | December 2024 | 90% of the PBOC Rate | Yes | Our Group's certain property, plant and asset in Shanghai | RMB1,727.6 million | RMB722.4 million |

The unutilised and unrestricted banking facility in the amount of approximately RMB1,727.6 million was available as at 30 April 2016 under the loan facility of RMB2,450 million in relation to our Daning Project.

We did not experience withdrawal of any banking facilities, early payment of outstanding loans required by banks, requests by banks to increase the amount of collateral for secured borrowings subsequent to 31 December 2015 and up to the Latest Practicable Date. Our Directors are also not aware of any breaches of the financial covenants in bank facilities or default on any loan repayments during the Track Record Period and up to the Latest Practicable Date.

As of the date of this listing document, we do not intend to incur any material debt through external debt financing that is not in the ordinary course of business in the foreseeable future after Listing.

Except as otherwise disclosed in the above table, as at 30 April 2016, being the latest practicable date for determining our indebtedness, we did not have any outstanding loan capital issued and outstanding, and authorised or otherwise created but unissued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

## CAPITAL COMMITMENTS

The following table summarises our capital expenditure contracted as at the indicated dates:

| | As at 31 December | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Capital expenditure in respect of acquisition of property, plant and equipment and property development project:** | | | |
| Contracted for but not provided in the combined financial statements | 105,400 | 1,456,000 | 946,500 |

## OPERATING LEASES

At the end of 31 December 2013, 2014 and 2015, operating lease payments represent rentals payable by our Group for certain of its leasehold land and building amounting to approximately HK$1,957.1 million, HK$1,742.9 million and HK$1,512.7 million respectively and other assets amounting to approximately HK$869,000, HK$701,000, and HK$725,000 respectively.

Our Group has commitments for future minimum lease payments under non-cancellable operating leases (fixed rent only) which fall due as follows:

| | As at 31 December | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Within one year | 166,401 | 167,300 | 159,558 |
| In the second to fifth year inclusive | 689,130 | 675,385 | 643,999 |
| Over five years | 1,102,392 | 900,963 | 709,851 |
| | 1,957,923 | 1,743,648 | 1,513,408 |

At the end of 31 December 2013, 2014 and 2015, our Group has also contracted with tenants for the following future minimum lease payments:

| | As at 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Within one year | 84,609 | 82,248 | 66,229 |
| In the second to fifth year inclusive | 113,539 | 115,060 | 79,739 |
| Over five years | 2,034 | 1,842 | — |
| | 200,182 | 199,150 | 145,968 |

The above leases are generally negotiated for terms ranging from one to five years. In addition, our Group had contracted with its concessionaire to receive contingent rentals based on the concessionaire's turnover for terms ranging from one to two years.

## CAPITAL EXPENDITURES

Our capital expenditure requirements mainly relate to expansion of our department store network and addition in our property, plant and equipment, including improvement and renovation for our existing stores. For each of the three years ended 31 December 2015, the addition in property, plant and equipment was approximately HK$1,054.7 million, HK$464.5 million and HK$883.2 million, respectively.

For our Daning Project, which is targeted to be completed in 2018, capital expenditure expected to be incurred in respect of construction works is approximately RMB3.3 billion, excluding the acquisition cost of the land use right. We shall finance our Daning Project through a combination of our cash balances of approximately HK$2,292.0 million and unutilised banking facilities of approximately HK$2,187.2 million as at 31 December 2015. Please refer to the paragraph headed "Our expansion plans" in the section headed "Business" of this listing document for further details.

## KEY FINANCIAL RATIOS

Set out below is the summary of the key financial ratios of our Group during the Track Record Period:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| Gross profit margin *(Note 1 & Note 8)* | 74.1% | 74.4% | 73.5% |
| Net profit margin *(Note 2)* | 28.7% | 24.0% | 22.2% |
| Return on equity *(Note 3)* | 18.5% | 15.6% | 16.0% |
| Return on total assets *(Note 4)* | 2.9% | 2.4% | 2.2% |

| | As at 31 December | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| Current ratio *(Note 5)* | 0.25 | 0.28 | 0.27 |
| Gearing ratio (bank borrowings) *(Note 6)* | 16.1% | 20.8% | 32.2% |
| Gearing ratio (all borrowings) *(Note 7)* | 266.6% | 264.2% | 289.8% |

*Notes:*

1. Gross profit margin is calculated as gross profit divided by turnover of the respective years and multiplied by 100%, and gross profit equals to turnover minus cost of goods sold and other cost of sales.

2. Net profit margin is calculated as net profit for the year attributable to the owners of our Company divided by the turnover of the respective years and multiplied by 100%.

3. Return on equity is calculated as net profit for the year attributable to the owners of our Company divided by equity attributable to the owners of our Company of the respective years and multiplied by 100%.

4. Return on total assets is calculated as net profit for the year attributable to the owners of our Company divided by the total assets of our Group of the respective years and multiplied by 100%.

5. Current ratio is calculated as the total current assets divided by the total current liabilities as at the respective dates.

6. Gearing ratio (bank borrowings) is calculated as bank borrowings divided by total equity as at the respective dates and multiplied by 100%.

7. Gearing ratio (all borrowings) is calculated as the aggregate of bank borrowings, amounts due to fellow subsidiaries and amount due to a non-controlling shareholder of subsidiaries divided by total equity as at the respective dates and multiplied by 100%.

8. An analysis of the gross profit margin in respect of direct sales is set out as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| Gross profit margin in respect of direct sales | 35.5% | 34.1% | 34.3% |
| Gross profit margin in respect of direct sales (excluding profits from the supermarket and restaurant business activities) | 49.1% | 39.4% | 42.0% |

Please refer to the sections headed "Year ended 31 December 2014 compared to year ended 31 December 2013", and "Year ended 31 December 2015 compared to year ended 31 December 2014" above for discussion of the factors affecting gross profit margin, net profit margin, return on equity, return on total asset, current ratio and gearing ratio. Please refer to the paragraph headed "Indebtedness" above for discussion of the factors affecting gearing ratio.

**Gross profit margin**

Gross profit margin remained relatively stable at 74.1%, 74.4% and 73.5% for each of the three years ended 31 December 2015. This was because the composition of direct sales and concessionaire in sales proceeds (net of tax), direct sales gross profit margin and average concessionaire commission rate for each of the three years ended 31 December 2015 were relatively stable.

**Net profit margin**

The decrease in net profit margin from approximately 28.7% for the year ended 31 December 2013 to approximately 24.0% for the year ended 31 December 2014 was primarily due to the decrease in profit for the year attributable to the owners of our Company for approximately 11.0%, mainly because of the operating loss sustained by Shenyang Jiuguang during its first full year operation for the year ended 31 December 2014.

The decease in net profit margin from approximately 24.0% for the year ended 31 December 2014 to approximately 22.2% for the year ended 31 December 2015 was primarily due to the decrease in profit for the year attributable to the owners of our Company for approximately 5.8%, mainly because of the closing down costs of Shenyang Jiuguang incurred for the year ended 31 December 2015.

**Return on equity and return on total assets**

The decrease in return on equity from approximately 18.5% for the year ended 31 December 2013 to approximately 15.6% for the year ended 31 December 2014 was primarily due to the decrease in net profit attributable to the owners of our Company of approximately 11.0%, for the reasons mentioned above, and the increase in total equity attributable to owners of our Company of approximately 5.5%.

The increase in return on equity from approximately 15.6% for the year ended 31 December 2014 to approximately 16.0% for the year ended 31 December 2015 was primarily due to the decrease in the total equity attributable to owners of our Company by approximately 8.1%, for the reasons mentioned above, while profit for the year attributable to the owner of our Company decreased by approximately 5.8%.

The decrease in return on total assets from approximately 2.9% for the year ended 31 December 2013 to approximately 2.4% for the year ended 31 December 2014 was primarily due to the decrease in net profit attributable to the owners of our Company of approximately 11.0%, for the reasons mentioned above, despite the increase in total assets of approximately 4.0%.

The return on total assets remained relatively stable at approximately 2.4% for the year ended 31 December 2014 to approximately 2.2% for the year ended 31 December 2015.

**Current ratio**

The increase in our current ratio from approximately 0.25 times for the year ended 31 December 2013 to approximately 0.28 times for the year ended 31 December 2014 was primarily due to the larger increase in current assets than current liabilities. Current assets as at 31 December 2014 of approximately HK$2,586.7 million increased by approximately 12.0% compared with the current assets of approximately HK$2,308.6 million as at 31 December 2013. Current liabilities as at 31 December 2014 of approximately HK$9,272.2 million increased by approximately 2.1% compared with current liabilities of approximately HK$9,084.8 million as at 31 December 2013. The increase in current assets was primarily due to increase in inventories, trade and other receivables, bank balances and cash, and financial assets at fair value through profit or loss. The increase in current liabilities was primarily due to increase in amounts due to fellow subsidiaries, tax payable, and bank borrowings due within one year.

The current ratio of approximately 0.28 times for the year ended 31 December 2014 remained stable at approximately 0.27 times for the year ended 31 December 2015.

**Gearing ratio**

The increase in gearing ratio (bank borrowings) from approximately 16.1% for the year ended 31 December 2013 to approximately 20.8% for the year ended 31 December 2014, and further increased to 32.2% for the year ended 31 December 2015, was primarily due to the increase in bank borrowings for our Daning Project.

The gearing ratio (all borrowings) was stable at 266.6% and 264.2% for the year ended 31 December 2013 and 2014 respectively, because of all borrowings increased approximately to 6.6% while the total equity increased by approximately 7.6%. The increase in all borrowings was mainly due to increase in bank borrowings for our Daning Project and advances from fellow subsidiaries. The gearing ratio (all borrowings) increased to approximately 289.8% for the year ended 31 December 2015. The increase for the year ended 31 December 2015 was primarily due to increase in bank borrowings for our Daning Project, while the total equity remained largely stable for the years ended 31 December 2014 and 2015.

**FINANCIAL INSTRUMENTS**

Except as disclosed otherwise, we have not entered into any other financial instruments for hedging purposes.

**OFF BALANCE SHEET TRANSACTIONS**

Except for the commitments and contingent liabilities set forth above, we have not entered into any material off-balance sheet transactions or arrangements.

## PLEDGE OF ASSETS

As at 31 December 2013, 2014 and 2015, our Group has pledged (i) property, plant and equipment in the PRC with carrying value of approximately HK$2,730.3 million, HK$2,694.2 million and HK$3,615.2 million, respectively; (ii) prepaid lease payments in the PRC with carrying value of approximately HK$673.6 million, HK$3,628.0 million and HK$2,848.6 million, respectively and (iii) properties under development with carrying value of approximately nil, nil, HK$778.7 million, respectively, to secure bank loan facilities in an aggregate amount of approximately HK$832.7 million, HK$3,787.8 million and HK$3,228.8 million, respectively.

## FINANCIAL RISK FACTORS

Our Group's activities are exposed to a variety of financial risks, including interest rate risk, credit risk and liquidity risk.

### Interest rate risk

Our interest rate risk arises from long-term borrowings. Borrowings at variable rates expose our Group to cash flow interest rate risk which is partially offset by cash deposited also at variable rates. Borrowings at fixed rates also expose our Group to fair value interest rate risk.

### Credit risk

The credit risk of our Group mainly arises from cash and cash equivalents, trade receivables and other receivables, amount due from a joint venture. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent our Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

Sales to customers are settled in cash, via credit cards or prepaid cards. Our Directors consider that our Group does not have significant concentration of credit risk in relation to trade and other receivables.

Our Group has concentration of credit risk in relation to amount due from a joint venture. However, our Directors are of the view that there is no recoverability issue of amount due from a joint venture, because our Group believes that the joint venture have the repayment capabilities, and our Group has agreed with the joint venture about future plans of repayment.

### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of undrawn committed credit facilities. Due to the dynamic nature of our underlying business, our treasury function aims to maintain flexibility in funding by keeping committed credit lines available.

## DIVIDEND

Our Shareholders will be entitled to receive dividends that we declare. We do not have a fixed dividend policy and the payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors deem relevant. In addition, our Controlling Shareholders will be able to influence the approval by our Shareholders in a general meeting for any payment of dividends.

Any declaration and payment as well as the amount of dividends will be subject to the Articles of Association and the Cayman Islands Companies Law. Our Shareholders in general meeting may approve and make any declaration of dividends in any currency, but no dividend shall exceed the amount recommended by our Board. Dividends may be paid out of our Company's distributable profits as permitted under the relevant laws.

Dividends received from our subsidiaries in the PRC may be subject to PRC taxes. The PRC laws require that dividends be paid only out of net profits, calculated in accordance with the PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including the HKFRS. The PRC laws also require foreign-invested enterprises to set aside part of their net profits as statutory reserves, which are not available for distribution as cash dividends.

Cash dividends on our Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our Shareholders by any means which our Directors consider legal, fair and practicable.

## DISTRIBUTABLE RESERVES

Our Company was incorporated on 4 January 2016 and has not carried out any business since the date of incorporation and it had no distributable reserves as at 31 December 2013, 2014 and 2015.

Under the Companies Law, the share premium account may be applied by our Company in paying distributions or dividends to the Shareholders, provided that immediately following the date on which the distribution or dividend is proposed to be paid, our Company shall be able to pay its debts as they fall due in the ordinary course of business.

## NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this listing document, there had been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2015 and there had been no event since 31 December 2015 which would materially affect the information shown in the combined financial information included in the Accountants' Report set forth in Appendix I to this listing document. According to our management accounts for the four months ended 30 April 2016, the financial performance of our Group remains steady when compared with the same period in 2015.

## DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

## LISTING EXPENSES

Listing expenses include professional fees in relation to the listing of our Group. The total listing expenses in relation to the preparation of the Listing is expected to be amounted to approximately HK$24.6 million, of which approximately HK$2.8 million incurred during the Track Record Period has been recognised as other expenses in our combined statements of profit or loss for the year ended 31 December 2015, with remaining approximately HK$21.8 million to be expended in profit or loss in 2016. The increase in listing expenses from approximately nil for the year ended 31 December 2014 to approximately HK$2.8 million for the year ended 31 December 2015 was due to the incurring of expenses (being mainly fees to professional parties) in relation to the preparation for the Listing.

## PROPERTY INTERESTS AND PROPERTY VALUATION

DTZ Cushman & Wakefield Limited, an independent property valuer we engaged, has valued our certain property interests at RMB5,180 million as at 30 April 2016.

The table below sets forth the reconciliation of the aggregate amount of net book value of the corresponding property interests under assessment from our combined statement of financial position as at 31 December 2015 and the valuation of such property interests as at 30 April 2016 set out in Appendix III to this listing document:

| | **Total** |
|---|---|
| | *HK$'000* |
| Net book value of the following assets of the Group as at 31 December 2015 | |
| — Property, plant and equipment | 3,934,012 |
| — Properties under development | 778,716 |
| — Prepaid lease payments | 2,935,916 |
| | 7,648,644 |
| Less: Property, plant and equipment not included in the property valuation report in Appendix III to this listing document | (1,679,246) |
| Net book value of the properties set out in the property valuation report in Appendix III to this listing document as at 31 December 2015 | 5,969,398 |
| Add: Addition relating to the properties set out in the valuation report in Appendix III to this listing document during the period from 1 January 2016 to 30 April 2016 | |
| — Property, plant and equipment | 75,365 |
| — Property under development | 39,532 |
| Less: Depreciation of land and building held for own use for the period from 1 January 2016 to 30 April 2016 | (18,652) |
| Add: Exchange gain relating to the properties set out in the valuation report in Appendix III to this listing document | 75,882 |
| Valuation surplus | 48,575 |
| Valuation of properties of the Group as at 30 April 2016 as set out in the property valuation report in Appendix III to this listing document (Equivalent to approximately RMB5,180,000,000) | 6,190,100 |

## UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted combined net tangible assets of our Group attributable to owners of our Company which has been prepared in accordance with paragraph 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Listing on the combined net tangible assets of our Group attributable to owners of our Company as at 31 December 2015 as if the Listing had taken place on 31 December 2015.

This unaudited pro forma statement of adjusted combined 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 combined net tangible assets of our Group attributable to owners of our Company had the Listing been completed as at 31 December 2015 or at any future dates. It is prepared based on the combined net tangible assets of our Group attributable to owners of our Company as at 31 December 2015 as set out in the combined financial statements contained in Appendix I to this listing document, and adjusted as described below.

| | **Audited combined net tangible assets of our Group attributable to owners of our Company as of 31 December 2015** | **Estimated listing expenses** | **Unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company** | **Unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company per Share** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$* |
| | *(Note 1)* | *(Note 2)* | | *(Note 3)* |
| Based on 1,602,586,500 Shares in issue immediately prior to the Listing | 1,913,799 | (21,814) | 1,891,985 | 1.18 |

*Notes:*

(1) The audited combined net tangible assets of our Group attributable to owners of our Company as at 31 December 2015 is extracted from the Accountants' Report set forth in Appendix I to this listing document, which is based on the audited combined net assets of our Group attributable to owners of our Company as at 31 December 2015 of HK$1,913,799,000.

(2) The estimated listing expenses mainly include professional fees payable to the Sponsor, our Company's legal advisers and reporting accountants and other listing related expenses, which are expected to be incurred by our Group subsequent to 31 December 2015.

(3) The unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company per Share is arrived at after the adjustments as described in note 2 above and is based on 1,602,586,500 Shares expected to be in issue immediately prior to the Listing.

(4) No adjustment has been made to the audited combined net tangible assets of our Group attributable to owners of our Company as at 31 December 2015 to reflect any trading results or other transaction of our Group entered into subsequent to 31 December 2015. In particular, the unaudited pro forma adjusted combined net tangible assets in the table above have not been adjusted to show the effect of the settlement of the amounts due to fellow subsidiaries which are non-trade in nature.

Subsequent to 31 December 2015, as part of the Reorganisation as set out in the section headed "Reorganisation" in this listing document, the amounts due to fellow subsidiaries which are non-trade in nature of approximately HK$8,032,155,000 as at 31 December 2015 will be settled prior to the listing of our Company by way of the Capitalisation Issue. No pro forma adjustment has been made to the combined net tangible assets of our Group attributable to owners of our Company in connection with the Capitalisation Issue.

For illustration purpose, had the Capitalisation Issue been completed on 31 December 2015, the unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company per Share, on the basis that 1,602,586,500 Shares expected to be in issue immediately prior to the Listing will be as follows.

| | **Unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company taking into account of the Capitalisation Issue** | **Unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company per Share taking into account of the Capitalisation Issue** |
|---|---|---|
| | *HK$'000* | *HK$* |
| Based on 1,602,586,500 Shares in issue immediately prior to the Listing | 9,924,140 | 6.19 |

Our objective is to strengthen our market leadership position as an operator of department stores under the Jiuguang Brand and increase our competitiveness in the PRC. We seek to continue to offer a one-stop shopping experience at each of our department stores and to leverage on our operational experience and success from our existing PRC department stores to expand our operations in other parts of the PRC. We intend to continue to maintain a portfolio of international and domestic branded apparel and fashion and cosmetics and accessories products and continue to focus on concessionaire sales and continue to strengthen our relationship with our concessionaires.

We intend to strengthen our position in the department store market in the PRC by developing our second department store also under the Jiuguang Brand in Shanghai through our Daning Project. Our Daning Project consists of a commercial complex comprising sizeable retail premises, office buildings, and our Group's second department store in Shanghai. The commercial complex will also feature office buildings and retail premises. While our Group will retain ownership of the retail complex (together with the below ground areas) for the operation of our second Jiuguang department store in Shanghai, management intends to sell the two office towers in part or in whole when the sales permit is granted by the relevant PRC authorities. We expect to commence operation of our second department store in Shanghai within six months after completion of our Daning Project, which is currently targeted to be completed in December 2018. Please refer to the paragraph headed "Our expansion plans" in the section headed "Business" in this listing document for further details.

Regarding Shenyang Jiuguang, as at the Latest Practicable Date, it had already ceased operating and the property was evacuated. Our Directors were still considering the future usage of Lifu Plaza. For further details regarding Shenyang Jiuguang, please refer to the paragraph headed "Shenyang Jiuguang" in the section headed "Business" in this listing document.

For a further description of our future plans, please refer to the paragraphs headed "Our strategies", "Our expansion plans" and "Shenyang Jiuguang" in the section headed "Business" in this listing document.

*The following is the text of a report received from the reporting accountants of our Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this listing document. It is prepared and addressed to the Directors and to the Sponsor pursuant to the requirements of Auditing Guideline 3.340 ''Prospectuses and the Reporting Accountant'' issued by the Hong Kong Institute of Certified Public Accountants.*

Deloitte.
德勤

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Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

30 June 2016

The Directors
Lifestyle China Group Limited

BNP Paribas Securities (Asia) Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Lifestyle China Group Limited (formerly known as "Lifestyle China Limited") ("Lifestyle China" or the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2015 (the "Relevant Periods") for inclusion in the listing document issued by the Company dated 30 June 2016 (the "Listing Document") in connection with the listing by way of introduction of the entire issued share capital of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Proposed Listing").

The Company was incorporated and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands on 4 January 2016. Pursuant to a group reorganisation (the "Reorganisation") as more fully explained in the section headed "Reorganisation" in the Listing Document, the Company has since 23 June 2016 become the holding company of the companies now comprising the Group.

At the date of this report, the Company has interests in the following subsidiaries:

| Name of company | Place of incorporation/ establishment | Date of incorporation/ establishment | Issued and fully paid-up share capital/registered capital at the date of this report | Equity interest attributable to the owners of the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|
| | | | | At the 31 December | | | At date of this report | |
| | | | | 2013 | 2014 | 2015 | | |
| | | | | % | % | % | % | |
| Ample Sun Group Limited 益良集團有限公司 | Hong Kong | 17 August 2007 | HK$62,050,000 | 60 | 60 | 60 | 60 | Investment holding |

| Name of company | Place of incorporation/ establishment | Date of incorporation/ establishment | Issued and fully paid-up share capital/registered capital at the date of this report | Equity interest attributable to the owners of the Company At the 31 December 2013 % | 2014 % | 2015 % | At date of this report % | Principal activities |
|---|---|---|---|---|---|---|---|---|
| Beauty Power Limited 美威有限公司 | British Virgin Islands ("BVI") | 8 January 2007 | United States dollar ("US$) US$1 | 100 | 100 | 100 | 100 | Investment holding |
| Charm Wave Limited 祥華有限公司 | Hong Kong | 26 October 2006 | HK$1 | 100 | 100 | 100 | 100 | Investment holding |
| Excellent Global Limited ("Excellent Global") | BVI | 28 February 2002 | US$1 | 100 | 100 | 100 | 100 | Investment holding |
| Farrich Holdings Limited 遠富控股有限公司 | BVI | 8 January 2007 | US$1 | 100 | 100 | 100 | 100 | Investment holding |
| Forever Smart Limited 卓遠有限公司 | Hong Kong | 2 June 2006 | HK$1 | 100 | 100 | 100 | 100 | Investment holding |
| Gainbest Assets Limited | BVI | 15 May 2002 | US$1 | 100 | 100 | 100 | 100 | Investment holding |
| Global Top Limited 世高有限公司 | Hong Kong | 12 January 2006 | HK$1 | 100 | 100 | 100 | 100 | Restaurant operation |
| Graceful Ocean Limited 譽洋有限公司 | Hong Kong | 15 June 2007 | HK$1 | 100 | 100 | 100 | 100 | Investment Holding |
| Great Prosperity Holding Inc. | BVI | 15 May 2002 | US$10 | 100 | 100 | 100 | 100 | Investment holding |
| Herosmart Investments Limited | BVI | 1 September 2006 | US$1 | 100 | 100 | 100 | 100 | Investment holding |
| Lifestyle China Holdings Limited 利福中國控股有限公司 ("Lifestyle China Holdings") | Hong Kong | 5 December 2007 | HK$1 | 100 | 100 | 100 | 100 | Investment holding |
| Majestic Eagle Limited | BVI | 23 November 2015 | US$1 | — | — | 100 | 100 | Inactive |
| Noble Sea Limited 萃海有限公司 | BVI | 3 May 2007 | US$1 | 100 | 100 | 100 | 100 | Investment holding |
| Nice Union Limited 麗滙有限公司 | Hong Kong | 25 November 2006 | HK$1 | 100 | 100 | 100 | 100 | Investment holding |
| Pilot Sky Group Limited | BVI | 18 August 2003 | US$1 | 100 | 100 | 100 | 100 | Inactive |
| Smart Fortune Assets Limited | BVI | 22 April 2002 | US$1 | 100 | 100 | 100 | 100 | Investment holding |
| Super Gallant Limited 駿超有限公司 | Hong Kong | 1 June 2007 | HK$1 | 100 | 100 | 100 | 100 | Investment holding |
| Win Early Limited 榮曉有限公司 | BVI | 10 July 2007 | US$1 | 100 | 100 | 100 | 100 | Investment holding |

| Name of company | Place of incorporation/ establishment | Date of incorporation/ establishment | Issued and fully paid-up share capital/registered capital at the date of this report | Equity interest attributable to the owners of the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|
| | | | | At the 31 December | | | At date of this report | |
| | | | | 2013 | 2014 | 2015 | | |
| | | | | % | % | % | % | |
| Wingold Limited 捷金有限公司 ("Wingold") | Hong Kong | 20 April 2007 | HK$10,000 | 60 | 60 | 60 | 60 | Investment holding |
| Wise Fortune Limited 百智有限公司 | Hong Kong | 18 September 2015 | HK$1 | — | — | 100 | 100 | Inactive |
| 上海久光百貨有限公司# Shanghai Ongoing Department Store Limited ("Shanghai Ongoing") | The People's Republic of China (the "PRC") | 26 July 2004 | US$12,000,000 | 65 | 65 | 65 | 65 | Retailing business |
| 上海利海超商業有限公司# Shanghai Li Hai Chao Commercial Company Limited* ("Li Hai Chao") | The PRC | 31 March 2012 | Renminbi ("RMB") RMB15,000,000 | 100 | 100 | 100 | 100 | Retailing business |
| 久光百貨(大連)有限公司# Ongoing (Dalian) Department Store Limited ("Ongoing (Dalian)") | The PRC | 9 April 2009 | US$12,000,000 | 100 | 100 | 100 | 100 | Inactive |
| 久光百貨(蘇州)有限公司# Ongoing (Suzhou) Department Store Limited* ("Ongoing (Suzhou)") | The PRC | 17 January 2008 | N/A *(note b)* | 100 | 100 | N/A *(note b)* | N/A *(note b)* | Inactive |
| 會福商務諮詢(上海)有限公司# Lifestyle Business Consultation (Shanghai) Limited* ("Lifestyle Business Consultation") | The PRC | 4 May 2008 | US$140,000 | 100 | 100 | 100 | 100 | Business consultancy |
| 利怡達商業置業(上海)有限公司# Li Yi Da Commercial and Real Estate (Shanghai) Company Limited* ("Li Yi Da") | The PRC | 23 April 2012 | RMB2,500,000,000 | 100 | 100 | 100 | 100 | Project management |
| 利福(中國)投資有限公司# Lifestyle (China) Investment Co., Ltd. ("Lifestyle (China) Investment") | The PRC | 11 September 2008 | US$50,000,000 | 100 | 100 | 100 | 100 | Investment holding |
| 利福商廈(大連)有限公司# Lifestyle Plaza (Dalian) Co., Limited ("Lifestyle Plaza (Dalian)") | The PRC | 9 October 1993 | US$45,000,000 | 100 | 100 | 100 | 100 | Retailing business |

| Name of company | Place of incorporation/ establishment | Date of incorporation/ establishment | Issued and fully paid-up share capital/registered capital at the date of this report | Equity interest attributable to the owners of the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|
| | | | | At the 31 December | | | At date of this report | |
| | | | | 2013 | 2014 | 2015 | | |
| | | | | % | % | % | % | |
| 利福廣場(蘇州) 有限公司# Lifestyle Plaza (Suzhou) Co., Limited ("Lifestyle Plaza (Suzhou)") | The PRC | 1 March 2007 | RMB683,955,600 | 100 | 100 | 100 | 100 | Retailing business |
| 利福達(上海)投資管理有限公司# Li Fu Tak (Shanghai) Investment Management Limited* ("Li Fu Tak") | The PRC | 30 June 2010 | RMB25,000,000 | 100 | 100 | 100 | 100 | Inactive |
| 利鑾(上海)貿易有限公司# Li Luan (Shanghai) Trading Company Limited* ("Li Luan") | The PRC | 15 July 2010 | US$300,000 | 100 | 100 | 100 | 100 | Inactive |
| 北京匯通潤信貿易有限公司# Beijing Huitong Runxin Trading Company Limited* ("Huitong") | The PRC | 1 February 2008 | RMB100,000,000 | 60 *(note c)* | 60 *(note c)* | 60 *(note c)* | 60 *(note c)* | Investment holding |
| 和三昧(上海)餐飲管理有限公司# Hesanmei (Shanghai) Catering Management Company Limited* ("Hesanmei (Shanghai)") | The PRC | 26 September 2008 | US$140,000 | 100 | 100 | 100 | 100 | Restaurant operation |
| 瀋陽卓遠置業有限公司# Shenyang Chuk Yuen Company Limited* ("Shenyang Chuk Yuen") | The PRC | 1 December 2006 | RMB710,090,392 | 100 | 100 | 100 | 100 | Retailing business |
| 河北旭源投資有限公司# Hebei Xu Yuan Investment Company Limited* ("Xu Yuan") | The PRC | 23 November 2007 | RMB200,000,000 | 60 *(note c)* | 60 *(note c)* | 60 *(note c)* | 60 *(note c)* | Investment holding |
| 河北益商貿易有限公司# Hebei Yi Shang Trading Company Limited* ("Yi Shang") | The PRC | 11 March 2008 | RMB39,000,000 | 60 *(note c)* | 60 *(note c)* | 60 *(note c)* | 60 *(note c)* | Trading |
| 石家莊旭恆貿易有限公司# Shijiazhuang Xu Heng Trading Company Limited* ("Xu Heng") | The PRC | 21 February 2008 | RMB39,000,000 | 60 *(note c)* | 60 *(note c)* | 60 *(note c)* | 60 *(note c)* | Trading |

| Name of company | Place of incorporation/ establishment | Date of incorporation/ establishment | Issued and fully paid-up share capital/registered capital at the date of this report | Equity interest attributable to the owners of the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|
| | | | | At the 31 December | | | At date of this report | |
| | | | | 2013 | 2014 | 2015 | | |
| | | | | % | % | % | % | |
| 福運上海貿易有限公司# Fuyun Shanghai Trading Company Limited* ("Fuyun") | The PRC | 29 October 2008 | US$140,000 | 100 | 100 | 100 | 100 | Inactive |
| 蘇州久光百貨有限公司# Suzhou Ongoing Department Store Co., Limited* ("Suzhou Ongoing") | The PRC | 5 August 2015 | RMB10,000 | — | — | 100 | 100 | Inactive |

* The English name is translated for identification purpose only.

# These companies are wholly foreign-owned enterprises established in the PRC.

*Notes:*

(a) Except for Excellent Global and Majestic Eagle Limited, all of the above subsidiaries are indirectly held by the Company.

(b) Ongoing (Suzhou) was dissolved on 4 February 2015.

(c) These companies are wholly owned by Wingold, a 60% owned subsidiary of the Group.

The Company and its subsidiaries have adopted 31 December as the financial year end date.

No audited statutory financial statements have been prepared for the Company and its subsidiaries incorporated in BVI since their respective dates of incorporation as there is no statutory requirement for the respective companies to issue audited financial statements.

The statutory financial statements of companies incorporated in the Hong Kong Special Administrative Region for the years ended 31 December 2013 and 2014, or since their respective dates of incorporation, where this is a shorter period, were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and were audited by Deloitte Touche Tohmatsu in accordance with Hong Kong Standards of Auditing issued by the HKICPA. At the date of this report, the audited financial statements of the subsidiaries incorporated in Hong Kong for the year ended 31 December 2015 were not yet issued.

The statutory financial statements of companies established in the PRC for the Relevant Periods or since respective date of establishment, where there is a shorter period, were prepared in accordance with the relevant accounting policies and financial regulations applicable to enterprises established in the PRC. They were audited by the following firms of certified public accountants registered in the PRC.

| Name of subsidiary | Financial year end | Name of auditor |
|---|---|---|
| Fuyun | For each of the three years ended 31 December 2015 | 上海新高信會計師事務所有限公司 |
| Hesanmei (Shanghai) | For the year ended 31 December 2013 | 蘇州東信會計師事務所有限公司 |
| | For each of the two years ended 31 December 2015 | 上海滬中會計師事務所有限公司 |
| Huitong (note a) | For the year ended 31 December 2013 | 北京慧智宏景會計師事務所有限公司 |
| Li Fu Tak | For each of the three years ended 31 December 2015 | 上海新高信會計師事務所有限公司 |
| Li Hai Chao | For each of the three years ended 31 December 2015 | 上海新高信會計師事務所有限公司 |
| Li Luan | For each of the three years ended 31 December 2015 | 上海新高信會計師事務所有限公司 |
| Li Yi Da | For each of the three years ended 31 December 2015 | 上海新高信會計師事務所有限公司 |
| Lifestyle (China) Investment | For each of the three years ended 31 December 2015 | 上海新高信會計師事務所有限公司 |
| Lifestyle Business Consultation | For each of the three years ended 31 December 2015 | 上海新高信會計師事務所有限公司 |
| Lifestyle Plaza (Dalian) | For each of the three years ended 31 December 2015 | 遼寧宏安會計師事務所有限公司 |
| Lifestyle Plaza (Suzhou) | For each of the two years ended 31 December 2014 | 蘇州東信會計師事務所有限公司 |
| | For the year ended 31 December 2015 | 蘇州金鼎會計師事務所有限公司 |
| Ongoing (Dalian) | For each of the three years ended 31 December 2015 | 遼寧宏安會計師事務所有限公司 |
| Ongoing (Suzhou) (note b) | For each of the two years ended 31 December 2014 | 蘇州東信會計師事務所有限公司 |
| Shanghai Ongoing | For each of the three years ended 31 December 2015 | 上海滬中會計師事務所有限公司 |
| Shenyang Chuk Yuen | For each of the three years ended 31 December 2015 | 遼寧華清會計師事務所有限公司 |
| Suzhou Ongoing (note c) | For the period ended 31 December 2015 | 蘇州金鼎會計師事務所有限公司 |
| Xu Heng (note a) | For the year ended 31 December 2013 | 河北中君匯信源會計師事務所有限公司 |
| Xu Yuan (note a) | For the year ended 31 December 2013 | 河北中君匯信源會計師事務所有限公司 |
| Yi Shang (note a) | For the year ended 31 December 2013 | 河北中君匯信源會計師事務所有限公司 |

*Notes:*

(a) No audited financial statements were issued for these subsidiaries for the years ended 31 December 2014 and 2015 because there is no statutory requirement for these subsidiaries to issue audited financial statements.

(b) Ongoing (Suzhou) was dissolved on 4 February 2015 and hence no audited financial statements were issued for the year ended 31 December 2015.

(c) Suzhou Ongoing was newly established on 5 August 2015.

For the purpose of this report, the directors of Excellent Global and Lifestyle China Holdings have prepared their respective consolidated financial statements for the Relevant Periods in accordance with HKFRSs issued by the HKICPA (the "Holding Companies Financial Statements"). We have audited the Holding Companies Financial Statements and financial statements of Global Top Limited for the Relevant Periods in accordance with the Hong Kong Standards on Auditing issued by the HKICPA and examined the Holding Companies Financial Statements, financial statements of Global Top Limited and management accounts of the Majestic Eagle Limited (collectively referred to as the "Underlying Financial Statements") for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements on the basis of presentation as set out in note 2 below, after making such adjustments as the directors of the Company ("Directors") consider appropriate for the purpose of preparing our report for inclusion in the Listing Document.

The Underlying Financial Statements are the responsibility of the directors of the respective companies who approve their issuance. The Directors are responsible for the contents of the Listing Document in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of preparation set out in note 2 below, the Financial Information, gives, for the purpose of this report, a true and fair view of the financial position of the Group as at 31 December 2013, 2014 and 2015, and of its financial performance and cash flows of the Group for each of the three years ended 31 December 2015.

## A. COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | 2013 HK$'000 | 2014 HK$'000 | 2015 HK$'000 |
|---|---|---|---|---|
| Turnover | 8 | 1,272,872 | 1,355,835 | 1,381,348 |
| Cost of sales | 8 | (329,456) | (347,003) | (366,771) |
| Gross profit | | 943,416 | 1,008,832 | 1,014,577 |
| Other income, gains and losses | 9 | 178,934 | 166,985 | 118,249 |
| Selling and distribution costs | | (676,633) | (783,010) | (731,296) |
| Administrative expenses | | (143,876) | (137,820) | (153,237) |
| Investment income | 10 | 71,355 | 67,465 | 73,191 |
| Share of profit of a joint venture | 20 | 31,870 | 26,463 | 38,040 |
| Share of profits of associates | 19 | 338,824 | 371,148 | 370,237 |
| Other expenses | | — | — | (2,845) |
| Finance costs | 11 | (27,418) | (43,585) | (26,908) |
| Profit before taxation | | 716,472 | 676,478 | 700,008 |
| Taxation | 12 | (125,575) | (110,195) | (142,288) |
| Profit for the year | 13 | 590,897 | 566,283 | 557,720 |
| Other comprehensive income (expense) | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences arising from translation | | 19,800 | (20,132) | (48,271) |
| Share of exchange differences of associates | | 42,526 | (46,906) | (107,114) |
| Share of exchange difference of a joint venture | | 6,850 | (7,087) | (14,136) |
| | | 69,176 | (74,125) | (169,521) |

| | Notes | 2013<br>HK$'000 | 2014<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|---|
| Item that may not be reclassified subsequently to profit or loss: | | | | |
| Exchange differences arising from translation of functional currency to presentation currency | | 149,545 | (159,068) | (331,243) |
| Other comprehensive income (expense) for the year | | 218,721 | (233,193) | (500,764) |
| Total comprehensive income for the year | | 809,618 | 333,090 | 56,956 |
| Profit for the year attributable to: | | | | |
| Owners of the Company | | 365,099 | 324,799 | 305,977 |
| Non-controlling interests | | 225,798 | 241,484 | 251,743 |
| | | 590,897 | 566,283 | 557,720 |
| Total comprehensive income (expense) attributable to: | | | | |
| Owners of the Company | | 562,838 | 121,070 | (145,384) |
| Non-controlling interests | | 246,780 | 212,020 | 202,340 |
| | | 809,618 | 333,090 | 56,956 |

## B. COMBINED STATEMENTS OF FINANCIAL POSITION

| | Notes | 2013 HK$'000 | 2014 HK$'000 | 2015 HK$'000 |
|---|---|---|---|---|
| Non-current assets | | | | |
| Property, plant and equipment | 17 | 3,458,383 | 3,649,493 | 3,934,012 |
| Prepaid lease payments | 18 | 3,833,124 | 3,625,067 | 2,855,712 |
| Interests in associates | 19 | 2,676,677 | 2,944,916 | 3,199,978 |
| Interest in a joint venture | 20 | 486,231 | 469,615 | 456,280 |
| Properties under development | 21 | — | — | 778,716 |
| Deferred tax assets | 30 | 1,613 | 1,801 | 360 |
| | | 10,456,028 | 10,690,892 | 11,225,058 |
| Current assets | | | | |
| Inventories | 22 | 38,044 | 41,798 | 38,090 |
| Prepaid lease payments | 18 | 97,863 | 97,941 | 80,204 |
| Trade and other receivables | 23 | 189,073 | 225,196 | 159,211 |
| Amount due from a joint venture | 24 | 230,570 | 98,858 | 35,400 |
| Amounts due from fellow subsidiaries | 25 | 24 | 17 | 62 |
| Financial assets at fair value through profit or loss | 26 | — | 44,856 | — |
| Bank balances and cash | 27 | 1,752,991 | 2,077,991 | 2,291,965 |
| | | 2,308,565 | 2,586,657 | 2,604,932 |
| Current liabilities | | | | |
| Trade and other payables | 28 | 1,335,633 | 1,208,971 | 1,117,692 |
| Amount due to a joint venture | 24 | 156,391 | — | 40,101 |
| Amounts due to fellow subsidiaries | 25 | 7,475,077 | 7,867,915 | 8,198,280 |
| Tax payable | | 40,878 | 59,401 | 44,361 |
| Bank borrowings | 29 | 76,860 | 135,929 | 152,980 |
| | | 9,084,839 | 9,272,216 | 9,553,414 |
| Net current liabilities | | (6,776,274) | (6,685,559) | (6,948,482) |
| Total assets less current liabilities | | 3,679,754 | 4,005,333 | 4,276,576 |

| | Notes | 2013<br>HK$'000 | 2014<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|---|
| Non-current liabilities | | | | |
| Bank borrowings | 29 | 416,513 | 548,584 | 888,594 |
| Deferred tax liabilities | 30 | 25,082 | 30,256 | 23,922 |
| Amount due to a non-controlling shareholder of subsidiaries | 31 | 180,893 | 137,665 | 130,550 |
| | | 622,488 | 716,505 | 1,043,066 |
| | | 3,057,266 | 3,288,828 | 3,233,510 |
| Capital and reserves | | | | |
| Share capital | 32 | — | — | — |
| Reserves | | 1,974,137 | 2,082,707 | 1,913,799 |
| Equity attributable to owners of the Company | | 1,974,137 | 2,082,707 | 1,913,799 |
| Non-controlling interests | | 1,083,129 | 1,206,121 | 1,319,711 |
| | | 3,057,266 | 3,288,828 | 3,233,510 |

## C. COMBINED STATEMENTS OF CHANGES IN EQUITY

| | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Reserve HK$'000 (Note 33) | Translation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1 January 2013 | – | 77,642 | 448,551 | 896,306 | 1,422,499 | 932,591 | 2,355,090 |
| Profit for the year | – | – | – | 365,099 | 365,099 | 225,798 | 590,897 |
| Other comprehensive income for the year | – | – | 197,739 | – | 197,739 | 20,982 | 218,721 |
| Total comprehensive income for the year | – | – | 197,739 | 365,099 | 562,838 | 246,780 | 809,618 |
| Dividend paid to non-controlling shareholders | – | – | – | – | – | (96,242) | (96,242) |
| Dividends paid *(Note 15)* | – | – | – | (11,200) | (11,200) | – | (11,200) |
| Transfer of reserves *(Note)* | – | (20,552) | – | 20,552 | – | – | – |
| At 31 December 2013 | – | 57,090 | 646,290 | 1,270,757 | 1,974,137 | 1,083,129 | 3,057,266 |
| Profit for the year | – | – | – | 324,799 | 324,799 | 241,484 | 566,283 |
| Other comprehensive expense for the year | – | – | (203,729) | – | (203,729) | (29,464) | (233,193) |
| Total comprehensive income for the year | – | – | (203,729) | 324,799 | 121,070 | 212,020 | 333,090 |
| Dividend paid to non-controlling shareholders | – | – | – | – | – | (89,028) | (89,028) |
| Dividends paid *(Note 15)* | – | – | – | (12,500) | (12,500) | – | (12,500) |
| Transfer of reserves | – | 19,031 | – | (19,031) | – | – | – |
| At 31 December 2014 | – | 76,121 | 442,561 | 1,564,025 | 2,082,707 | 1,206,121 | 3,288,828 |
| Profit for the year | – | – | – | 305,977 | 305,977 | 251,743 | 557,720 |
| Other comprehensive expense for the year | – | – | (451,361) | – | (451,361) | (49,403) | (500,764) |
| Total comprehensive income for the year | – | – | (451,361) | 305,977 | (145,384) | 202,340 | 56,956 |
| Dividend paid to non-controlling shareholders | – | – | – | – | – | (88,750) | (88,750) |
| Dividends paid *(Note 15)* | – | – | – | (23,524) | (23,524) | – | (23,524) |
| Transfer of reserves | – | 4,347 | – | (4,347) | – | – | – |
| At 31 December 2015 | – | 80,468 | (8,800) | 1,842,131 | 1,913,799 | 1,319,711 | 3,233,510 |

*Note:* It represented the transfer back of the statutory surplus reserve fund to retained profits of RMB16,271,000 (approximately HK$20,552,000) by a PRC subsidiary of the Company after the balance of statutory surplus reserve fund reached 50% of its registered capital.

## D. COMBINED STATEMENTS OF CASH FLOWS

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| OPERATING ACTIVITIES | | | |
| Profit before taxation | 716,472 | 676,478 | 700,008 |
| Adjustments for: | | | |
| Interest income on bank deposits | (66,205) | (61,846) | (69,671) |
| Other interest income | (5,150) | (5,619) | (3,520) |
| Finance costs | 27,418 | 43,585 | 26,908 |
| Depreciation of property, plant and equipment | 147,156 | 188,765 | 145,951 |
| Release of prepaid lease payments | 11,520 | 21,612 | 21,130 |
| Loss on disposal/written off of property, plant and equipment | 92 | 1,070 | 9,905 |
| Share of profit of a joint venture | (31,870) | (26,463) | (38,040) |
| Share of profits of associates | (338,824) | (371,148) | (370,237) |
| Write-down of obsolete inventories | 250 | 427 | 209 |
| Impairment for (reversal of) trade and other receivables | 989 | (1,042) | — |
| Operating cash flows before movements in working capital | 461,848 | 465,819 | 422,643 |
| (Increase) decrease in inventories | (6,922) | (5,207) | 1,315 |
| Decrease in trade and other receivables | 6,341 | 2,621 | 23,295 |
| Increase (decrease) in trade and other payables | 91,194 | 42,975 | (25,025) |
| Decrease (increase) in amount due from a joint venture | 16,978 | (35,769) | 11,638 |
| Increase in amount due to a joint venture | — | — | 40,101 |
| Increase in amounts due to fellow subsidiaries | 22,223 | 14,765 | 19,648 |
| (Increase) decrease in amounts due from fellow subsidiaries | (24) | 7 | (45) |
| Cash generated from operations | 591,638 | 485,211 | 493,570 |
| Interest received | 67,779 | 63,904 | 70,180 |
| Hong Kong Profits Tax paid | (2,616) | (2,573) | (2,004) |
| PRC Enterprise Income Tax paid | (120,939) | (65,941) | (154,879) |
| NET CASH FROM OPERATING ACTIVITIES | 535,862 | 480,601 | 406,867 |

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| INVESTING ACTIVITIES | | | |
| Interest received from a joint venture | 3,576 | 3,561 | 3,011 |
| Repayment from a joint venture | — | 12,460 | 47,200 |
| Dividend received from an associate | 24,839 | 22,818 | 54,315 |
| Dividend received from a joint venture | — | — | 37,239 |
| Acquisition of prepaid lease payments | (8,695) | — | — |
| Acquisition of financial assets at fair value through profit or loss | — | (44,856) | — |
| Proceeds from disposal of financial assets at fair value through profit or loss | — | — | 44,856 |
| Acquisition of additional interest in an associate | — | — | (13,360) |
| Purchase of property, plant and equipment | (520,468) | (357,541) | (641,352) |
| Proceeds from disposal of property, plant and equipment | 531 | — | — |
| NET CASH USED IN INVESTING ACTIVITIES | (500,217) | (363,558) | (468,091) |
| FINANCING ACTIVITIES | | | |
| Advance from a joint venture | 61,488 | 32,682 | — |
| Advances from fellow subsidiaries | 150,787 | 378,073 | 310,717 |
| New bank borrowings raised | 171,349 | 298,070 | 566,109 |
| Repayment of bank borrowings | (63,250) | (93,450) | (172,790) |
| Repayment to non-controlling shareholders | — | (38,377) | — |
| Dividends paid | (11,200) | (12,500) | (23,524) |
| Interest paid | (198,827) | (205,399) | (224,030) |
| Dividends paid to non-controlling shareholders | (96,242) | (89,028) | (88,750) |
| NET CASH FROM FINANCING ACTIVITIES | 14,105 | 270,071 | 367,732 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 49,750 | 387,114 | 306,508 |
| Effect of foreign exchange rate difference | 31,452 | (62,114) | (92,534) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 1,671,789 | 1,752,991 | 2,077,991 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 1,752,991 | 2,077,991 | 2,291,965 |
| ANALYSIS OF CASH AND CASH EQUIVALENTS | | | |
| Bank balances and cash | 1,752,991 | 2,077,991 | 2,291,965 |

## E. NOTES TO THE FINANCIAL INFORMATION

### 1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability under the Companies Law in the Cayman Islands on 4 January 2016.

The Company's ultimate and immediate holding company is Asia Prime Assets Limited, a company incorporated in the British Virgin Islands. The Company's ultimate controlling party is Mr. Lau Luen Hung, Thomas.

The addresses of the office and the principal place of business of the Company are set out in section headed "Corporate Information" to the Listing Document. The Company acts as an investment holding company and the principal activities of its subsidiaries are the operation of "Jiuguang" department stores and related retailing business in the PRC and restaurant business (the "Spin-off business").

The functional currency of the Company is RMB while the Financial Information is presented in Hong Kong Dollars HK$, which the management of the Group considered is more beneficial for the users of the Financial Information as the Company proposes to list its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The financial information contained in this Listing Document does not constitute the statutory annual financial statements of Lifestyle China Holdings and Global Top Limited for any of the financial year ended 31 December 2015. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

As Lifestyle China Holdings and Global Top Limited are private companies, Lifestyle China Holdings and Global Top Limited are not required to deliver their financial statements to the Registrar of Companies, and have not done so.

The auditor of Lifestyle China Holdings and Global Top Limited has reported on these financial statements for the year ended 31 December 2015. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis; and did not contain a statement under either section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

### 2. REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Company was a wholly owned subsidiary of Lifestyle International Holdings Limited (the "LIHL"), an exempted company incorporated in the Cayman Islands with limited liability, and whose shares are listed on the Main Board of the Stock Exchange. In preparation for the listing of the Company's shares on Stock Exchange and pursuant to the Reorganisation as set out in the section headed "Reorganisation" to the Listing Document, the Company since 23 June 2016 has become the holding company of the companies now comprising the Group which carry on the Spin-off business. The companies now comprising the Group were entities under LIHL and under the common ownership and control of the same shareholders of LIHL before and after the Reorganisation and as a result the Reorganisation is regarded as a reorganisation under common control in preparation of the Financial Information.

The Financial Information including the combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the Relevant Periods and the combined statements of financial position on the respective reporting dates has been prepared by applying the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" as if the current group structure had been in existence throughout the Relevant Periods, or since the respective dates of incorporation or establishment of the relevant entities, or up to the respective dates of dissolution where this is a shorter period.

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purposes of preparing and presenting the Financial Information for the Relevant Periods, the Group has consistently applied all the HKFRSs issued by the HKICPA which are effective for the Group's annual accounting period beginning on 1 January 2015 and has early applied HKFRS 9, issued in November 2009 and revised in October 2010 regarding classification and measurement of financial assets and disclosure requirements, throughout the Relevant Periods.

**New and amendments to HKFRSs in issue but not yet effective**

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 9 | Financial instruments[3] |
| HKFRS 15 | Revenue from contracts with customers[2] |
| HKFRS 16 | Leases[5] |
| Amendments to HKFRS 11 | Accounting for acquisitions of interests in joint operations[1] |
| Amendments to HKFRS 15 | Clarification to HKFRS 15 Revenue from contracts with customers[2] |
| Amendments to HKAS 1 | Disclosure initiative[1] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of acceptable methods of depreciation and amortisation[1] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer plants[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associate or joint venture[4] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment entities: Applying the consolidation exception[1] |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2012–2014 cycle[1] |

1 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

3 The Group has early applied HKFRS 9 issued in November 2009 and revised in October 2010 regarding classification and measurement of financial assets and disclosure requirements. The Group has not yet early applied the revised version of HKFRS 9 issued in September 2014 which deals with classification and measurement, general hedge accounting and impairment which is mandatory effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

4 Effective for annual periods beginning on or after a date to be determined.

5 Effective for annual periods beginning on or after 1 January 2019.

**HKFRS 9 "Financial instruments"**

HKFRS 9 was amended in 2013 to include the new requirements for general hedge accounting. A revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- Certain financial assets held within a business model whose objective is achieved both collecting contractual cash flows and selling financial assets should be measured at FVTOCI (unless designated at fair value through profit and loss ("FVTPL") to eliminate or significantly reduce a measurement mismatch). This applies to assets passing the contractual cash flow characteristics assessment (which is the same test used to determine whether financial assets are measured at amortised cost). Interest revenue, foreign exchange gains and losses and impairment gains and losses shall be recognised in profit or loss with all other gains or losses (i.e. the difference between those items and the total change in fair value) being recognised in other comprehensive income. Any cumulative gain or loss recorded in other comprehensive income would be reclassified to profit and loss on derecognition, or potentially earlier if the asset is reclassified because of a change in business model. Interest income and impairment gains and losses would be recognised and measured in the same manner as for assets measured at amortised cost such that the amounts in other comprehensive income represents the difference between the amortised cost value and fair value. This results in the same information in profit or loss as if the asset was measured at amortised cost, yet the combined statements of financial position would reflect the instrument's fair value.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The management of the Group is in the process of making an assessment of the potential impact of the application of HKFRS 9 and it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

**HKFRS 15 "Revenue from contracts with customers"**

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The management of the Group is in the process of making an assessment of the potential impact of the application of HKFRS 15 and it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

**HKFRS 16 "Leases"**

HKFRS 16 — Leases was issued by the HKICPA in May 2016. It will be effective for annual periods beginning on or after 1 January 2019. This new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. The new standard maintains substantially the lessor accounting requirements in the current standard.

A lessee is required to recognise a right-of-use asset and a lease liability at the commencement of lease arrangement. Right-of-use asset includes the amount of initial measurement of lease liability, any lease payment made to the lessor at or before the lease commencement date, estimated cost to be incurred by the lessee for dismantling or removing the underlying assets from and restoring the site, as well as any other initial direct cost incurred by the lessee. Lease liability represents the present value of the lease payments. Subsequently, depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 — Property, Plant and Equipment, while lease liability will be increased by the interest accrual, which will be charged to profit or loss, and deducted by lease payments.

The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

As set out in note 34 to Appendix I, total operating lease commitment of the Group in respect of commercial properties with terms more than 12 months as at 31 December 2015 amounting to HK$1,511,795,000. The management of the Group do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's results but it is expected that certain portion of these lease commitments will be required to be recognised in the combined statement of financial position as right-of-use assets and lease liabilities.

The management of the Group does not anticipate that the application of other amendments will have a material effect on the amounts recognised in the Group's Financial Information.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

**Basis of combination**

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;

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

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

Combination of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the combined statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

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

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

**Merger accounting for business combination involving entities under common control**

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

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statements of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period.

**Investments in associates and a joint venture**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and the joint venture are incorporated in the Financial Information using the equity method of accounting. The associate and joint venture uses accounting policies that differ from those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the associates' and the joint venture's accounting policies to those of the Group. Under the equity method, an investment in an associate or a joint venture is initially recognised in the combined statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the

Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Financial Information only to the extent of interests in the associate or joint venture that are not related to the Group.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from sale of goods is recognised when the goods are delivered and titles have been passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Income from concessionaire sales is recognised upon sales of goods by the relevant shops based on certain percentage of turnover in accordance with the terms of contracts. When the concessionaires fail to meet the minimum guarantee income in accordance with the terms of contracts, the minimum guarantee amount is recognised as income.

Service income is recognised when services are provided.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

**Property, plant and equipment**

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

***Buildings under development for future owner-occupied purpose***

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

**Properties under development**

Properties under development are stated at the lower of cost and net realisable value. The cost comprises prepaid lease payments, development and construction expenditure, borrowing costs capitalised and other direct costs attributable to the development. Net realisable value is the estimated selling price at which the property can be realised less related expenses.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an income in the period in which they are incurred.

***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

*Leasehold land and building*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the combined statements of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the combined statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

***Financial assets***

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Financial assets at amortised cost*

Debt instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss (except for debt investments that are designated as at FVTPL on initial recognition):

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

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

All other financial assets are subsequently measured at fair value.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments measured subsequently at amortised cost. Interest income is recognised in profit or loss and is included in "investment income" line item.

*Financial assets at FVTPL*

Debt instruments that do not meet the amortised cost criteria (see above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in the "investment income" line item in the combined statements of profit or loss and other comprehensive income. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on these financial assets.

***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For financial assets carried at amortised cost, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

***Financial liabilities and equity instruments***

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

*Financial liabilities*

Financial liabilities including bank borrowings, trade and other payables, concessionaire sales payable, amount due to a joint venture, amounts due to fellow subsidiaries and amount due to a non-controlling shareholder of subsidiaries are subsequently measured at amortised cost, using the effective interest method.

***Derecognition***

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

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

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Impairment losses on tangible assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**Government grants**

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Other government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Retirement benefit costs**

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the management of the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**Income taxes**

As at 31 December 2013, 2014 and 2015, no deferred tax asset has been recognised on the tax losses of approximately HK$192.8 million, HK$272.2 million and HK$447.8 million, respectively, due to the unpredictability of future profit streams. The realisation of the deferred tax asset mainly depends on whether sufficient future assessable profits or taxable temporary differences will be available in the future. In cases where the estimated future assessable profits or taxable temporary difference are more than previously estimated, a material recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which the revised estimate takes place.

**Trade and other receivables**

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. In determining whether there is objective evidence of allowance for bad and doubtful debts, the Group takes into consideration the collectability, aged analysis of trade and other receivables and estimation of future cash flows. The amount of the allowance for bad and doubtful debts is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows. Where the actual future cash flows are less than expected, an allowance for bad and doubtful debts may arise. The carrying amounts of the Group's trade and other receivables as at 31 December 2013, 2014 and 2015 were HK$189,073,000 (net of allowance for doubtful debt of HK$1,042,000), HK$225,196,000 and HK$159,211,000, respectively.

**Inventories**

Inventories are stated at the lower of cost or net realisable value. Management of the Group periodically reviews inventories for slow moving, obsolescence or declines in market value.

This review requires the management of the Group to estimate the net realisable value based upon assumptions about future demand and market conditions. If the estimate of net realisable value is below the cost of inventories, the Group will record a write-down of inventories for the difference between cost and net realisable value, which will result in a corresponding increase in cost of sales.

The carrying amounts of the Group's inventories as at 31 December 2013, 2014 and 2015 were HK$38,044,000, HK$41,798,000 and HK$38,090,000, respectively.

**Net Realisable Value for Properties Under Development**

Properties under development at the end of each reporting period are stated at the lower of cost and net realisable value.

Net realisable value for properties under development is determined by reference to management estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses and the anticipated costs to completion. During the course of their assessment, management will also make reference to property valuations conducted by independent qualified professional valuers based on comparable market prices. Management are required to revise these estimates if there is a change in market condition or demand. If actual market conditions are less favourable than those projected by management, additional adjustments to the value of properties under development may be required. As at 31 December 2013, 2014 and 2015, the carrying amounts of properties under development are HK$nil, HK$nil and HK$778,716,000 (net of accumulated impairment loss of HK$nil, HK$nil and HK$nil), respectively.

**Useful lives of property, plant and equipment**

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual or expected useful lives of property, plant and equipment is less than the original estimated useful lives or revision of estimated useful lives due to changes in commercial and technological environment, such difference will impact the periodic depreciation charge for the remaining revised useful lives. As at 31 December 2013, 2014 and 2015, the carrying amounts of property, plant and equipment are HK$3,458,383,000, HK$3,649,493,000 and HK$3,934,012,000, respectively. Details of the estimated useful lives of the Group's property, plant and equipment are disclosed in note 17.

**6. CAPITAL RISK MANAGEMENT**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Group consists of debt, which includes the bank borrowings and amounts due to fellow subsidiaries as disclosed in note 29 and note 25, respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The management of the Group reviews the capital structure on a regular basis. As part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Group's management, the Group will balance its overall capital structure through the payment of dividends, new share issues and the issue of new debt or the redemption of existing debt.

## 7. FINANCIAL INSTRUMENTS

**Categories of financial instruments**

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Financial assets** | | | |
| Financial assets at FVTPL | — | 44,856 | — |
| Financial assets measured at amortised cost (including cash and cash equivalents) | 2,083,177 | 2,305,008 | 2,415,927 |
| **Financial liabilities** | | | |
| Financial liabilities measured at amortised cost | 9,397,881 | 9,614,069 | 10,232,026 |

**Financial risk management objectives and policies**

The Group's major financial instruments include bank balances and cash, financial assets at FVTPL, trade and other receivables, trade and other payables, amount due from/to a joint venture, amounts due from/to fellow subsidiaries, bank borrowings and amount due to a non-controlling shareholder of subsidiaries. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Currency risk***

The functional currency of the Company and its subsidiaries operating in the PRC is RMB in which most of its transactions are denominated. The functional currency of the subsidiary in Hong Kong is HK$ in which most of the transactions are denominated.

The Group has certain foreign currency denominated bank balances at the end of each reporting period and details of which are disclosed in respective notes.

The Group mainly exposed to currency risk of US$. The carrying amount of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are as follows:

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Assets** | | | |
| US$ | 191,025 | 279,874 | 183,673 |

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The following table details the Group's sensitivity to a reasonably possible change of 5% in exchange rate of US$ against RMB, while all other variables are held constant. 5% is the sensitivity rate used when reporting foreign currency risk internally to the key management personnel and represents the management's assessment of the reasonably possible change in foreign currency rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rate. A positive number below indicates a decrease in profit for the year where RMB weakens against the relevant foreign currency. Where RMB strengthens against the relevant foreign currency, there would be an equal and opposite impact on the profit for the year and the balances below would be negative.

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| US$ against RMB | (7,163) | (10,495) | (6,888) |

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during each of the Relevant Periods.

***Interest rate risk***

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits, fixed-rate balances with a joint venture and fixed-rate amounts due to fellow subsidiaries. The Group is also exposed to cash flow interest rate risk relating to the Group's variable-rate bank balances and bank borrowings. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure to interest rates for bank borrowings (excluding the specific bank borrowings for construction purpose) at the end of each reporting period and the reasonably possible change taking place at the beginning of each of the Relevant Periods and held constant throughout the year. A 50 basis points increase or decrease is used for variable-rate balances when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The Group's sensitivity to interest rate risk at the end of each reporting period while all other variables were held constant after taking into account the impact of the tax and finance costs capitalised in construction in progress is as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| (Decrease) increase in post-tax profit for the year | | | |
| — as a result of increase in interest rate | (1,850) | (1,805) | (1,267) |
| — as a result of decrease in interest rate | 1,850 | 1,805 | 1,267 |

The Group's sensitivity to cash flow interest rate risk for the exposure to interest rates for bank balances is not shown as the management considers that the exposure is minimal.

In management's opinion, the sensitivity is unrepresentative of the inherent interest rate risk as the year end exposure does not reflect the exposure during each of the Relevant Periods.

***Credit risk***

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the combined statements of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each material individual trade receivable regularly at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced. The Group's retail sales are mainly in cash, debit card or credit card payments.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk in relation to trade and other receivables, with exposure spread over a number of counterparties and customers.

The Group has concentration of credit risk in respect of amount due from a joint venture. However, the management considers the risk associated with amount due from a joint venture is minimal.

***Liquidity risk***

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows, and the management monitors the utilisation of bank borrowings.

The Group relies on bank borrowings and advances from fellow subsidiaries as a significant source of liquidity during the Relevant Periods. As at 31 December 2013, 2014 and 2015, the Group has available unutilised borrowing facilities of approximately HK$339,277,000, HK$3,103,327,000 and HK$2,187,248,000, respectively. Details of the Group's bank borrowings are set out in note 29.

At 31 December 2013, 2014 and 2015, the Group had current liabilities which exceeded its current assets, of HK$6,776,274,000, HK$6,685,559,000 and HK$6,948,482,000, respectively. Included in current liabilities are amounts due to fellow subsidiaries, all being subsidiaries of LIHL, amounted to HK$7,475,077,000, HK$7,867,915,000 and HK$8,198,280,000, respectively. Although the amounts due to fellow subsidiaries are repayable on demand and classified as current liabilities, LIHL has agreed not to demand for immediate repayment in respect of the amounts due to subsidiaries of LIHL until the Group has the financial ability to do so.

In addition, as more fully explained in the section headed "Reorganisation" of the Listing Document, except for the amounts of HK$166,125,000 as at 31 December 2015, that will be settled in cash, the management of the Group represents that the remaining amounts due to fellow subsidiaries by Group will be settled by way of issue of shares of the Company to LIHL prior to the listing of the shares of the Company on the Stock Exchange.

Based on the above, the management of the Group considers the Group does not have any significant liquidity risk and it will be able to meet its financial obligations as they fall due in the foreseeable future.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

*Liquidity and interest risk tables*

| | Weighted average effective interest rate | On demand/ less than 1 month | 1–3 months | 3 months to 1 year | 1–5 years | Over 5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **31 December 2013** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and other payables | — | 1,090,502 | 1,645 | — | — | — | 1,092,147 | 1,092,147 |
| Amount due to a non-controlling shareholder of subsidiaries | — | — | — | — | 180,893 | — | 180,893 | 180,893 |
| Bank borrowings — variable rate | 6.48 | 2,639 | 5,022 | 98,553 | 462,868 | — | 569,082 | 493,373 |
| Amount due to a joint venture | 0.50 | — | — | 156,391 | — | — | 156,391 | 156,391 |
| Amounts due to fellow subsidiaries | — | 4,393,460 | — | — | — | — | 4,393,460 | 4,393,460 |
| Amount due to a fellow subsidiary | 5.25 | 3,081,617 | — | — | — | — | 3,081,617 | 3,081,617 |
| | | 8,568,218 | 6,667 | 254,944 | 643,761 | — | 9,473,590 | 9,397,881 |

| | Weighted average effective interest rate | On demand/ less than 1 month | 1–3 months | 3 months to 1 year | 1–5 years | Over 5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **31 December 2014** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and other payables | — | 922,150 | 1,826 | — | — | — | 923,976 | 923,976 |
| Amount due to a non-controlling shareholder of subsidiaries | — | — | — | — | 137,665 | — | 137,665 | 137,665 |
| Bank borrowings — variable rate | 5.85 | 3,412 | 6,494 | 163,664 | 439,782 | 192,824 | 806,176 | 684,513 |
| Amounts due to fellow subsidiaries | — | 4,786,298 | — | — | — | — | 4,786,298 | 4,786,298 |
| Amount due to a fellow subsidiary | 5.25 | 3,081,617 | — | — | — | — | 3,081,617 | 3,081,617 |
| | | 8,793,477 | 8,320 | 163,664 | 577,447 | 192,824 | 9,735,732 | 9,614,069 |

| | Weighted average effective interest rate | On demand/ less than 1 month | 1–3 months | 3 months to 1 year | 1–5 years | Over 5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **31 December 2015** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and other payables | — | 819,708 | 1,813 | — | — | — | 821,521 | 821,521 |
| Amount due to a non-controlling shareholder of subsidiaries | — | — | — | — | 130,550 | — | 130,550 | 130,550 |
| Bank borrowings — variable rate | 4.68 | 4,053 | 7,845 | 186,537 | 371,469 | 700,438 | 1,270,342 | 1,041,574 |
| Amount due to a joint venture | — | 40,101 | — | — | — | — | 40,101 | 40,101 |
| Amounts due to fellow subsidiaries | — | 5,116,663 | — | — | — | — | 5,116,663 | 5,116,663 |
| Amount due to a fellow subsidiary | 5.25 | 3,081,617 | — | — | — | — | 3,081,617 | 3,081,617 |
| | | 9,062,142 | 9,658 | 186,537 | 502,019 | 700,438 | 10,460,794 | 10,232,026 |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of each reporting period.

**Fair value measurements of financial instruments**

The financial assets at FVTPL (note 26) is measured at fair value at the end of each reporting period. The fair value of financial assets at FVTPL was HK$44,856,000 as at 31 December 2014 which is determined with reference to discounted cash flow model, which is based on the expected return of the investment by reference to similar products in the market. The fair value measurement is classified under Level 2 of the fair value hierarchy.

Except as detailed in the following table, the management consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values at the end of each reporting period:

| | **2013** | | **2014** | | **2015** | |
|---|---|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Financial liabilities** | | | | | | |
| Amount due to a non-controlling shareholder of subsidiary | 180,893 | 176,920 | 137,665 | 134,469 | 130,550 | 127,765 |

## 8. TURNOVER AND SEGMENT INFORMATION

Turnover represents the amount received and receivable for goods sold by the Group to outside customers, net of discounts and sales related taxes, income from concessionaire sales, service income and rental income during the Relevant Periods, and is analysed as follows.

| | **2013** | **2014** | **2015** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Sales of goods — direct sales | 392,262 | 421,119 | 446,496 |
| Income from concessionaire sales | 732,688 | 779,102 | 769,655 |
| Service income | 52,994 | 51,385 | 55,804 |
| Rental income | 94,928 | 104,229 | 109,393 |
| | 1,272,872 | 1,355,835 | 1,381,348 |

The cost of sales are analysed as follows:

| | | | |
|---|---|---|---|
| Cost of goods sold — direct sales | 253,145 | 277,474 | 293,266 |
| Other cost of sales | 76,311 | 69,529 | 73,505 |
| | 329,456 | 347,003 | 366,771 |

The Group has no customers that contributed over 10% of the total revenue of the Group for each of the Relevant Periods.

The Group's operating activities are attributable to a single operating segment focusing on operation of department stores, retailing and related business. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, that are regularly reviewed by the chief operating decision maker ("CODM") (i.e. certain executive directors and key management of LIHL responsible for the PRC division who are also appointed as executive directors of the Company). The CODM regularly reviews revenue analysis by location and considers them as one single operating segment in order to assess performance and allocation of resources. Other than revenue analysis, no operating results and other discrete financial information is available for the assessment of performance of the respective locations.

The CODM reviews the profit for the year of the Group as a whole to make decisions about resource allocation. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM. The operation of the Group constitutes one single operating segment under HKFRS 8 "Operating segments" and accordingly no separate segment information other than entity level information is prepared.

**Geographical information**

Analysis of the Group's non-current assets by geographical location are detailed below:

| | **2013** | **2014** | **2015** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Hong Kong | 3,112 | 4,574 | 3,074 |
| PRC | 7,288,395 | 7,269,986 | 7,565,366 |
| | 7,291,507 | 7,274,560 | 7,568,440 |

*Note:* Non-current assets excluded interests in associates, interest in a joint venture and deferred tax assets.

## 9. OTHER INCOME, GAINS AND LOSSES

| | **2013** | **2014** | **2015** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Management fee income | 73,219 | 80,862 | 69,956 |
| Project income | 6,563 | 4,213 | 2,706 |
| Government subsidies *(note)* | 21,441 | 10,929 | 6,218 |
| Net exchange (loss) gain | (1,604) | (975) | 8,920 |
| Credit card recharge | 11,749 | 21,968 | 22,879 |
| Income from suppliers and lessees | 13,955 | 14,000 | 13,051 |
| Compensation for early termination of counters | — | — | (10,974) |
| Others | 53,611 | 35,988 | 5,493 |
| | 178,934 | 166,985 | 118,249 |

*Note:*

The amount represents the government subsidies received from the PRC local authorities for subsidising its operational activities and promotional activities conducted by the Group. All of them had no specific conditions attached.

## 10. INVESTMENT INCOME

| | **2013** | **2014** | **2015** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Interest income on bank deposits | 66,205 | 61,846 | 69,671 |
| Other interest income | 5,150 | 5,619 | 3,520 |
| | 71,355 | 67,465 | 73,191 |

**11. FINANCE COSTS**

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Interests on: | | | |
| Bank borrowings: | | | |
| — wholly repayable within five years | 23,550 | 34,384 | 26,532 |
| — wholly repayable after five years | — | 29 | 35,338 |
| Amounts due to fellow subsidiaries: | | | |
| — wholly repayable within five years | 179,353 | 170,147 | 161,785 |
| Others | 592 | 839 | 375 |
| | 203,495 | 205,399 | 224,030 |
| Less: Amounts capitalised in construction in progress | (176,077) | (161,814) | (197,122) |
| | 27,418 | 43,585 | 26,908 |

Capitalisation rate of borrowing costs to expenditure on qualifying assets is approximately 5.05%, 5.25% and 5.10% per annum for the year ended 31 December 2013, 2014 and 2015, respectively.

**12. TAXATION**

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| The tax charge comprises: | | | |
| Hong Kong Profits Tax | 2,445 | 2,205 | 2,700 |
| PRC Tax | 118,037 | 113,489 | 144,501 |
| | 120,482 | 115,694 | 147,201 |
| Under(over)provision in prior years: | | | |
| Hong Kong Profits Tax | 51 | (10) | (20) |
| PRC Tax | 2,835 | (10,475) | — |
| | 2,886 | (10,485) | (20) |
| Deferred tax charge (credit) *(note 30)* | 2,207 | 4,986 | (4,893) |
| | 125,575 | 110,195 | 142,288 |

No provision for taxation has been provided for companies in the Cayman Islands and BVI as they are not subject to any tax during the Relevant Periods.

Provision for Hong Kong Tax provided in the Financial Information is calculated at 16.5% of the assessable profits during the Relevant Periods.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Tax charge for each of the Relevant Periods can be reconciled to the profit before taxation per the combined statements of profit or loss and other comprehensive income as follows:

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Profit before taxation | 716,472 | 676,478 | 700,008 |
| Tax at applicable income tax rate of 25% | 179,118 | 169,120 | 175,002 |
| Tax effect of share of profit of a joint venture | (7,968) | (6,616) | (9,510) |
| Tax effect of share of profits of associates | (84,706) | (92,787) | (92,559) |
| Tax effect of income not taxable for tax purpose | (1,862) | (6,543) | (10,907) |
| Tax effect of expense not deductible for tax purpose | 11,235 | 11,239 | 10,739 |
| Tax effect on utilisation of tax losses previously not recognised | (9,094) | (17,200) | (891) |
| Tax effect of tax losses not recognised | 16,606 | 42,910 | 48,048 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (1,194) | (1,165) | (1,391) |
| Under(over)provision in prior years | 2,886 | (10,485) | (20) |
| Withholding tax | 20,621 | 21,879 | 23,922 |
| Others | (67) | (157) | (145) |
| Tax charge for the year | 125,575 | 110,195 | 142,288 |

## 13. PROFIT FOR THE YEAR

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Profit for the year has been arrived at after charging (crediting): | | | |
| Directors' remuneration *(note 14)*: | | | |
| Fees | 150 | 79 | 50 |
| Other emoluments | 3,600 | 3,600 | 3,600 |
| Bonus | 10,000 | 8,750 | 7,500 |
| Retirement benefits scheme contributions | 8 | 8 | 9 |
| | 13,758 | 12,437 | 11,159 |
| Other staff costs, excluding retirement benefits scheme contributions | 182,769 | 193,095 | 212,466 |
| Retirement benefits scheme contributions | 7,590 | 9,260 | 10,381 |
| | 190,359 | 202,355 | 222,847 |
| Total staff costs | 204,117 | 214,792 | 234,006 |
| Release of prepaid lease payments | 125,312 | 100,764 | 96,090 |
| Less: Amount capitalised in construction in progress *(note 17)* | (113,792) | (79,152) | (74,960) |
| | 11,520 | 21,612 | 21,130 |

| | 2013 HK$'000 | 2014 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| Auditor's remuneration | 1,295 | 1,232 | 1,388 |
| Depreciation of property, plant and equipment | 147,156 | 188,765 | 145,951 |
| Expenses in relation to the Listing (included in other expenses) | — | — | 2,845 |
| Impairment loss of trade and other receivables | 989 | — | — |
| Write-down of obsolete inventories | 250 | 427 | 209 |
| Rental payments paid under operating lease in respect of leasehold land and buildings to | | | |
| — a joint venture | 198,122 | 170,623 | 195,421 |
| — other parties | 9,194 | 20,255 | 16,752 |
| Loss on disposal/written off of property, plant and equipment | 92 | 1,070 | 9,905 |
| Cost of inventories recognised as expense | 249,791 | 277,770 | 313,241 |
| Gross rental income from sub-letting of commercial properties under an operating lease entered into with a joint venture | (59,631) | (62,461) | (66,102) |
| Less: Direct operating expenses in respect of sub-letting of commercial properties under an operating lease entered into with a joint venture (included in cost of sales) | 39,624 | 39,460 | 39,084 |
| | (20,007) | (23,001) | (27,018) |
| Reversal of impairment loss of trade and other receivables | — | (1,042) | — |

**14. DIRECTORS' AND EMPLOYEES' REMUNERATION**

Mr. Lau Luen Hung, Thomas and Ms. Chan Chor Ling, Amy were appointed as the directors of the Company on 4 January 2016 and 17 March 2016, respectively, and were re-designated as executive director and non-executive director, respectively, on 24 June 2016. The independent non-executive directors of the Company were appointed on 24 June 2016. The emoluments paid or payable to the directors and chief executive of the Company (including emoluments for services as employee/directors of the group entities prior to becoming the directors of the Company) by LIHL or entities comprising the Group during the Relevant Periods are as follows:

| 2013 | Executive Director | Non-Executive Director | Independent Non-Executive Directors | | | |
|---|---|---|---|---|---|---|
| | Lau Luen Hung, Thomas HK$'000 | Chan Chor Ling, Amy HK$'000 | Lam Kwong Wai HK$'000 | Cheung Yuet Man, Raymond HK$'000 | Cheung Mei Han HK$'000 | Total HK$'000 |
| Fees | 50 | — | — | 100 | — | 150 |
| Other emoluments | | | | | | |
| Salaries and other benefits | 3,600 | — | — | — | — | 3,600 |
| Bonus* | 10,000 | — | — | — | — | 10,000 |
| Retirement benefits scheme contributions | 8 | — | — | — | — | 8 |
| Total emoluments | 13,658 | — | — | 100 | — | 13,758 |

| 2014 | Executive Director Lau Luen Hung, Thomas | Non-Executive Director Chan Chor Ling, Amy | Independent Non-Executive Directors Lam Kwong Wai | Cheung Yuet Man, Raymond | Cheung Mei Han | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Fees | 50 | — | — | 29 | — | 79 |
| Other emoluments | | | | | | |
| Salaries and other benefits | 3,600 | — | — | — | — | 3,600 |
| Bonus* | 8,750 | — | — | — | — | 8,750 |
| Retirement benefits scheme contributions | 8 | — | — | — | — | 8 |
| Total emoluments | 12,408 | — | — | 29 | — | 12,437 |

| 2015 | Executive Director Lau Luen Hung, Thomas | Non-Executive Director Chan Chor Ling, Amy | Independent Non-Executive Directors Lam Kwong Wai | Cheung Yuet Man, Raymond | Cheung Mei Han | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Fees | 50 | — | — | — | — | 50 |
| Other emoluments | | | | | | |
| Salaries and other benefits | 3,600 | — | — | — | — | 3,600 |
| Bonus* | 7,500 | — | — | — | — | 7,500 |
| Retirement benefits scheme contributions | 9 | — | — | — | — | 9 |
| Total emoluments | 11,159 | — | — | — | — | 11,159 |

* The bonus is determined having regard to the Group's and the respective member's performance for each of the Relevant Periods.

During the Relevant Periods, no remuneration was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any remuneration during the Relevant Periods.

Mr. Lau Luen Hung, Thomas, is also the Chief Executive of the Company and his emoluments disclosed above include those of services rendered by him as the Chief Executive.

Of the five highest paid individuals of the Group for the year ended 31 December 2013, 2014 and 2015, one of them was a director of the Company whose remuneration is disclosed above and the remaining four are employees of the Group, details of whose remuneration were as follows:

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Employees: | | | |
| Salaries, allowances and other benefits | 4,736 | 4,187 | 5,747 |
| Retirement benefits scheme contributions | 60 | 405 | 71 |
| Performance related incentive payments | 730 | 431 | 1,732 |
| | 5,526 | 5,023 | 7,550 |

The emolument of the remaining four were within the following bands:

| | 2013 *Number of individuals* | 2014 *Number of individuals* | 2015 *Number of individuals* |
|---|---|---|---|
| HK$1,000,001 to HK$1,500,000 | 3 | 4 | 3 |
| HK$1,500,001 to HK$2,000,000 | 1 | — | — |
| HK$3,500,001 to HK$4,000,000 | — | — | 1 |

During the years ended 31 December 2013, 2014 and 2015, no remuneration was paid by the Group to the four highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

LIHL recharged all the directors' remuneration to the Group through "consultancy fee paid to fellow subsidiaries" as further disclosed in note 37(a)(x).

**15. DIVIDENDS**

No dividend has been declared or paid by the Company since its date of incorporation.

During the Relevant Periods, subsidiaries of the Group, Global Top Limited and Excellent Global, paid dividends to Vision Pilot Group Limited ("Vision Pilot"), the then immediate holding company of Global Top Limited and LIHL, respectively. Vision Pilot is a subsidiary retained by LIHL pursuant to the Reorganisation.

| | 2013 *HK$'000* | 2014 *HK$'000* | 2015 *HK$'000* |
|---|---|---|---|
| Dividends declared to Vision Pilot and recognised as distribution to owners of the Company | 11,200 | 12,500 | 13,300 |
| Dividends declared to LIHL and recognised as distribution to owners of the Company | — | — | 10,224 |
| | 11,200 | 12,500 | 23,524 |

The rate of dividend and the number of shares ranking for the above dividend are not presented as such information is not meaningful having regard to the purposes of the Financial Information.

**16. EARNINGS PER SHARE**

No earnings per share information is presented for the purpose of this report as its inclusion is not considered meaningful having regard to the preparation of Financial Information on a combined basis.

**17. PROPERTY, PLANT AND EQUIPMENT**

| | Buildings | Leasehold improvements | Plant and machinery | Furniture, fixtures and equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| COST | | | | | | | |
| At 1 January 2013 | 1,659,797 | 628,062 | 85,077 | 60,343 | 5,614 | 747,963 | 3,186,856 |
| Exchange adjustment | 32,250 | 20,645 | 2,416 | 1,706 | 166 | 20,818 | 78,001 |
| Additions | 7,523 | 292 | 8,186 | 5,621 | 2,043 | 1,031,082 | 1,054,747 |
| Disposals/written off | — | — | — | (316) | (1,358) | — | (1,674) |
| Transfer | 1,175,165 | 217,339 | 111,636 | — | — | (1,504,140) | — |
| At 31 December 2013 | 2,874,735 | 866,338 | 207,315 | 67,354 | 6,465 | 295,723 | 4,317,930 |
| Exchange adjustment | (75,294) | (23,347) | (5,560) | (1,588) | (177) | (3,659) | (109,625) |
| Additions | — | 23,414 | 3,122 | 9,138 | 1,512 | 427,353 | 464,539 |
| Disposals/written off | — | (270) | (9,220) | (1,414) | — | — | (10,904) |
| Transfer | — | 17,270 | — | — | — | (17,270) | — |
| At 31 December 2014 | 2,799,441 | 883,405 | 195,657 | 73,490 | 7,800 | 702,147 | 4,661,940 |
| Exchange adjustment | (144,300) | (46,128) | (10,120) | (3,643) | (413) | (20,053) | (224,657) |
| Additions | 2,067 | 21,049 | 1,415 | 2,578 | — | 856,115 | 883,224 |
| Disposals/written off | (10,485) | (13) | (2,402) | (351) | (30) | — | (13,281) |
| Transfer to properties under development *(note 21)* | — | — | — | — | — | (284,078) | (284,078) |
| At 31 December 2015 | 2,646,723 | 858,313 | 184,550 | 72,074 | 7,357 | 1,254,131 | 5,023,148 |
| DEPRECIATION | | | | | | | |
| At 1 January 2013 | 185,843 | 401,920 | 56,192 | 41,930 | 3,383 | — | 689,268 |
| Exchange adjustment | 8,156 | 12,860 | 1,778 | 1,272 | 108 | — | 24,174 |
| Provided for the year | 54,601 | 72,090 | 12,891 | 7,073 | 501 | — | 147,156 |
| Eliminated on disposals/written off | — | — | — | (284) | (767) | — | (1,051) |
| At 31 December 2013 | 248,600 | 486,870 | 70,861 | 49,991 | 3,225 | — | 859,547 |
| Exchange adjustment | (8,815) | (13,784) | (1,962) | (1,376) | (94) | — | (26,031) |
| Provided for the year | 77,339 | 88,796 | 16,131 | 5,863 | 636 | — | 188,765 |
| Eliminated on disposals/written off | — | (270) | (8,291) | (1,273) | — | — | (9,834) |
| At 31 December 2014 | 317,124 | 561,612 | 76,739 | 53,205 | 3,767 | — | 1,012,447 |
| Exchange adjustment | (27,430) | (31,218) | (4,288) | (2,724) | (226) | — | (65,886) |
| Provided for the year | 79,444 | 52,110 | 10,358 | 3,374 | 665 | — | 145,951 |
| Eliminated on disposals/written off | (881) | (13) | (2,162) | (316) | (4) | — | (3,376) |
| At 31 December 2015 | 368,257 | 582,491 | 80,647 | 53,539 | 4,202 | — | 1,089,136 |
| NET BOOK VALUES | | | | | | | |
| At 31 December 2013 | 2,626,135 | 379,468 | 136,454 | 17,363 | 3,240 | 295,723 | 3,458,383 |
| At 31 December 2014 | 2,482,317 | 321,793 | 118,918 | 20,285 | 4,033 | 702,147 | 3,649,493 |
| At 31 December 2015 | 2,278,466 | 275,822 | 103,903 | 18,535 | 3,155 | 1,254,131 | 3,934,012 |

During the years ended 31 December 2013, 2014 and 2015, additions to construction in progress included capitalisation of borrowing costs of HK$176,077,000, HK$161,814,000 and HK$197,122,000, respectively, and prepaid lease payments of HK$113,792,000, HK$79,152,000 and HK$74,960,000, respectively.

The above items of property, plant and equipment, other than construction in progress, are depreciated after taking into account their estimated residual value, using straight-line method over the following useful lives:

| | |
|---|---|
| Buildings | Over the shorter of lease terms or 40 years |
| Leasehold improvements | Over the shorter of lease terms or 10 years |
| Plant and machinery | 5 to 10 years |
| Furniture, fixtures and equipment | 5 years |
| Motor vehicles | 5 years |

Details of pledge of assets are set out in note 36.

**18. PREPAID LEASE PAYMENTS**

The Group's prepaid lease payments comprise:

| | **2013** | **2014** | **2015** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Analysed for reporting purposes as: | | | |
| Current portion | 97,863 | 97,941 | 80,204 |
| Non-current portion | 3,833,124 | 3,625,067 | 2,855,712 |
| | 3,930,987 | 3,723,008 | 2,935,916 |

Details of pledge of assets are set out in note 36.

**19. INTERESTS IN ASSOCIATES**

| | **2013** | **2014** | **2015** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Unlisted, at cost | 1,514,131 | 1,514,131 | 1,527,491 |
| Discount arising on acquisition of additional interest in an associate in prior years | 114,556 | 114,556 | 114,556 |
| Share of post-acquisition profits and other comprehensive income, net of dividends | 1,047,990 | 1,316,229 | 1,557,931 |
| | 2,676,677 | 2,944,916 | 3,199,978 |

As at 31 December 2013, 2014 and 2015, the Group had interests in the following associates:

| Name of entity | Form of business structure | Place/country of establishment/ incorporation | Principal place of operation | Proportion of nominal value of issued capital/ registered capital held by the Group | Proportion of voting power held | Principal activities |
|---|---|---|---|---|---|---|
| 石家莊北國人百集團有限責任公司 ("Beiren Group") *(note 1)* | Incorporation | PRC | PRC | 49% | 49% | Investment holding of a group of companies engaging in the operation of department stores, supermarkets and property leasing |
| 河北北國先天下廣場有限責任公司 ("Future Mall") *(note 2)* | Incorporation | PRC | PRC | 2013 & 2014: 48%<br>2015: 49% | 2013 & 2014: 48%<br>2015: 49% | Retailing business in the PRC |
| Dragon Sign Limited | Incorporation | Hong Kong | PRC | 50% | 50% | Investment holding of a company engaging in operation of restaurants in the PRC |

*Notes:*

(1) The Group's 60% owned subsidiary, Wingold Limited, indirectly holds equity interest of 49% in Beiren Group as at 31 December 2013, 2014 and 2015.

(2) During the year ended 31 December 2015, the Group further acquired 1% equity interest in Future Mall at a consideration of HK$13,360,000. At 31 December 2013, 2014 and 2015, the Group's 60% owned subsidiary, Ample Sun Group Limited, held equity interest of 48%, 48% and 49% in Future Mall, respectively. In addition, 51% equity interest of Future Mall was being indirectly held by a non-wholly owned subsidiary of Beiren Group.

The financial information in respect of the Group's associates is set out below:

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | 12,823,830 | 13,467,309 | 13,872,709 |
| Total liabilities | 8,593,487 | 8,694,064 | 8,648,258 |
| Net assets | 4,230,343 | 4,773,245 | 5,224,451 |
| Group's share of associates' net assets | 2,676,677 | 2,944,916 | 3,199,978 |
| Revenue | 8,198,561 | 8,243,572 | 8,933,303 |
| Profit for the year | 431,263 | 469,526 | 449,783 |
| Other comprehensive income (expense) | 67,901 | (72,581) | (174,741) |
| Group's share of profit of associates for the year | 338,824 | 371,148 | 370,237 |
| Group's share of other comprehensive income (expense) of associates for the year | 42,526 | (46,906) | (107,114) |

**Summarised financial information of material associate**

Summarised financial information in respect of the Beiren Group is set out below.

*Beiren Group*

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Current assets | 7,299,030 | 7,558,800 | 7,518,270 |
| Non-current assets | 5,308,482 | 5,708,220 | 6,150,530 |
| Current liabilities | 8,309,585 | 8,423,681 | 8,374,419 |
| Non-current liabilities | 75,984 | 77,174 | 75,832 |
| Non-controlling interests | 717,076 | 862,979 | 1,023,795 |
| Revenue | 8,079,094 | 8,131,158 | 8,825,993 |
| Profit for the year | 429,319 | 470,846 | 450,963 |
| Other comprehensive income (expense) for the year | 67,901 | (72,581) | (174,741) |
| Total comprehensive income for the year | 497,220 | 398,265 | 276,222 |
| Dividends declared from the associate to the Group during the year | 24,839 | 56,003 | 21,421 |

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate in respect of Beiren Group recognised in the Financial Information:

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Net assets of Beiren Group attributable to owners | 3,504,868 | 3,903,186 | 4,194,754 |
| Proportion of the Group's ownership interest in Beiren Group | 49% | 49% | 49% |
| | 1,717,385 | 1,912,561 | 2,055,429 |
| Add: Interest in Beiren Group through other subsidiaries of the Group | 955,092 | 1,028,815 | 1,141,599 |
| Carrying amount of the Group's interest in Beiren Group | 2,672,477 | 2,941,376 | 3,197,028 |

*Information of associate that is not individually material*

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| The Group's share of profit (loss) and total comprehensive income (expense) | 972 | (660) | (590) |
| Carrying amount of the Group's interest in this associate | 4,200 | 3,540 | 2,950 |

## 20. INTEREST IN A JOINT VENTURE

As at 31 December 2013, 2014 and 2015, the Group had interest in the following joint venture:

| Name of entity | Form of business structure | Place of establishment/ operation | Proportion of nominal value of registered capital held by the Group | Proportion of voting power held | Principal activities |
|---|---|---|---|---|---|
| 上海九百城市廣場有限公司 (Shanghai Joinbuy City Plaza Co., Ltd.) ("Property JV") | Sino-foreign equity joint venture | PRC | 50% | 50% | Property holding and leasing |

The joint venture is accounted for using the equity method of accounting:

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Cost of unlisted investment in a joint venture | 433,104 | 433,104 | 433,104 |
| Share of post-acquisition profits and other comprehensive income, net of dividends | 53,127 | 36,511 | 23,176 |
| | 486,231 | 469,615 | 456,280 |

The summarised financial information related to the Group's interest in the joint venture is set out below:

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Non-current assets | 1,322,422 | 1,228,167 | 1,153,645 |
| Current assets | 170,903 | 211,600 | 98,527 |
| Current liabilities | 520,863 | 500,537 | 339,612 |
| Cash and cash equivalents | 13,841 | 26,530 | 43,509 |
| Current financial liabilities (excluding trade and other payables and provisions) | 493,407 | 457,360 | 307,290 |
| Income | 248,748 | 235,516 | 246,890 |
| Expenses | 185,008 | 182,590 | 170,810 |
| Profit for the year | 63,740 | 52,926 | 76,080 |
| Other comprehensive income (expense) | 13,700 | (14,174) | (28,272) |
| Total comprehensive income for the year | 77,440 | 38,752 | 47,808 |
| Dividend income recognised by the Group during the year | 35,601 | 35,992 | 37,239 |
| Group's share of profit of the joint venture | 31,870 | 26,463 | 38,040 |
| Group's share of other comprehensive income (expense) of the joint venture | 6,850 | (7,087) | (14,136) |

The above profit for the year includes the following:

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Depreciation and amortisation | 31,451 | 24,633 | 10,997 |
| Interest income | 238 | 110 | 206 |
| Interest expense | 15,989 | 14,437 | 14,056 |
| Income tax expense | 26,333 | 28,910 | 30,389 |

Reconciliation of the above summarised financial information to the carrying amount of the interest in a joint venture recognised in the financial information:

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Net assets of the joint venture | 972,462 | 939,230 | 912,560 |
| Proportion of the Group's ownership interest | 50% | 50% | 50% |
| Carrying amount of the Group's interest in the joint venture | 486,231 | 469,615 | 456,280 |

**21. PROPERTIES UNDER DEVELOPMENT**

During the year ended 31 December 2015, the Group transferred HK$778,716,000 (representing the amounts of prepaid lease payments of HK$494,638,000, construction costs and other costs of HK$284,078,000 directly attributable to the construction and development of two office towers of the Group's commercial complex development project in Shanghai, the PRC) to the balance of properties under development. Management intends to sell these two office towers in part or in whole when the sale permit is granted by PRC authorities. Details of pledge of assets are set out in note 36.

**22. INVENTORIES**

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Merchandise held for resale | 38,044 | 41,798 | 38,090 |

**23. TRADE AND OTHER RECEIVABLES**

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Trade receivables | 44,169 | 41,654 | 42,694 |
| Less: Allowance for doubtful debts | (1,042) | — | — |
| | 43,127 | 41,654 | 42,694 |
| Prepayments | 15,762 | 9,840 | 2,974 |
| Deposits paid | 3,047 | 2,084 | 1,961 |
| Value added tax ("VAT") receivable | 70,672 | 85,130 | 65,776 |
| Dividend receivable from an associate | — | 32,894 | — |
| Others | 56,465 | 53,594 | 45,806 |
| | 189,073 | 225,196 | 159,211 |

The Group's retail sales to customers are mainly in cash, through debit card or credit card payments. Its major trade receivables arising from credit card sales are normally settled in one to two business days in arrears and the rental income receivables are normally settled 30 days in arrears. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date, which approximates the respective revenue recognition dates:

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| 0–30 days | 39,979 | 37,022 | 38,196 |
| 31–60 days | 2,285 | 2,595 | 1,507 |
| 61–90 days | 306 | 586 | 668 |
| Over 90 days | 557 | 1,451 | 2,323 |
| | 43,127 | 41,654 | 42,694 |

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$3,148,000, HK$4,632,000 and HK$4,498,000 which are past due as at 31 December 2013, 2014 and 2015, respectively, for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

**Aging of trade receivables which are past due but not impaired**

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| 31–60 days | 2,285 | 2,595 | 1,507 |
| 61–90 days | 306 | 586 | 668 |
| Over 90 days | 557 | 1,451 | 2,323 |
| | 3,148 | 4,632 | 4,498 |

The Group has not fully provided for all receivables over 90 days because historical experience indicated that such receivables would be recoverable from the relevant debtors.

**Movement in the allowance for doubtful debts on trade receivables**

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Balance at beginning of the reporting period | 53 | 1,042 | — |
| Impairment loss recognised | 989 | — | — |
| Reversal of impairment loss recognised | — | (1,042) | — |
| Balance at the end of the reporting period | 1,042 | — | — |

**24. AMOUNT DUE FROM (TO) A JOINT VENTURE**

At 31 December 2013, 2014 and 2015, the amount due from a joint venture included an entrusted loan to a joint venture of HK$102,480,000, HK$87,220,000 and HK$35,400,000, respectively, which carried fixed rate of 3.5% per annum. The management of the Group expects that the amounts will be realised within twelve months from the end of the reporting period, hence, these amounts were classified as current assets. In addition, the remaining amount due from a joint venture of HK$128,090,000 and HK$11,638,000 at 31 December 2013 and 2014 represented dividend receivable and prepaid rental and management fee, respectively, which were unsecured, non-interest-bearing and repayable on demand.

At 31 December 2013, the amount due to a joint venture represented an entrusted loan from a joint venture which carried at fixed interest rate of 0.5% per annum and repayable within one year. At 31 December 2015, the amount due to a joint venture represented accrued rental and management fee payable to a joint venture. The amounts were unsecured, non-interest bearing and repayable on demand.

**25. AMOUNTS DUE FROM (TO) FELLOW SUBSIDIARIES**

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

Except for amounts due to fellow subsidiaries amounted to approximately HK$131.7 million, HK$146.5 million and HK$166.1 million at 31 December 2013, 2014 and 2015, respectively, which are trade nature, the remaining amounts are non-trade in nature. The amounts due to fellow subsidiaries were unsecured. Except for amounts due to fellow subsidiaries of approximately HK$371.5 million and HK$ 3,081.6 million as at 31 December 2013 which borne fixed interest at 3.5% per annum and 5.25% per annum, respectively, and an amount of HK$3,081.6 million as at 31 December 2014 and 2015 which bore interest at 5.25% per annum, the remaining balances were non-interest bearing.

As represented by the Directors, as part of the Reorganisation, except for the amount of HK$166,125,000 as at 31 December 2015 that will be settled in cash, the remaining outstanding balance of amounts due to follow subsidiaries, which are non-trade in nature, will be settled by way of issue of shares of the Company to LIHL prior to the listing of the Shares of the Company on the Stock Exchange, details of which are more fully explained under section headed "Reorganisation" in the Listing Document.

**26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

The amount at 31 December 2014 mainly comprised structured bank deposits placed to a bank in the PRC, with an expected but not guaranteed return of 3.70%–3.80% per annum, depending on the performance of its underlying investments, mainly bonds and debentures. These financial assets were designated as financial assets at FVTPL at initial recognition. In the opinion of the Directors, the fair value of these financial assets does not differ materially from their carrying amounts as at the reporting date because of their short periods to maturity.

There were no significant changes in the counterparties' credit risk and therefore there were no significant gains or losses attributed to changes in credit risk for these financial assets designated at fair value through profit or loss during the Relevant Periods.

**27. BANK BALANCES AND CASH**

Bank balances and cash comprised mainly short-term deposits with original maturity within three months which carry interests at prevailing market rates ranging from 0.75% to 3.08% per annum ("p.a."), 0.01% to 4.90% p.a. and 0.42% to 3.30% p.a. as at 31 December 2013, 2014 and 2015, respectively.

Included in bank balances and cash are the following amounts denominated in currency other than functional currencies of the Company:

| | **2013** | **2014** | **2015** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| US$ | 191,025 | 279,874 | 183,673 |

## 28. TRADE AND OTHER PAYABLES

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Trade payables | 44,226 | 45,571 | 43,007 |
| Construction payables | 407,260 | 273,292 | 243,082 |
| Concessionaire sales payable | 563,643 | 586,830 | 517,203 |
| Deferred income | 120,324 | 119,781 | 120,407 |
| Rental deposits received | 50,430 | 53,214 | 51,905 |
| Accrued expenses | 34,033 | 34,083 | 53,816 |
| VAT payable | 42,121 | 20,719 | 11,784 |
| Interest payables | 760 | 426 | 1,155 |
| Others | 72,836 | 75,055 | 75,333 |
| | 1,335,633 | 1,208,971 | 1,117,692 |

The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| 0–30 days | 34,224 | 35,860 | 32,582 |
| 31–60 days | 5,451 | 4,202 | 3,333 |
| 61–90 days | 2,749 | 1,970 | 1,877 |
| Over 90 days | 1,802 | 3,539 | 5,215 |
| | 44,226 | 45,571 | 43,007 |

The average credit period of trade payables and concessionaire sales payable is within 45 days from invoice date. All concessionaire sales payable were aged within 45 days from invoice date at the end of each Relevant Periods. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## 29. BANK BORROWINGS

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Bank borrowings comprised bank loans and analysed as: | | | |
| Secured | 493,373 | 684,513 | 1,041,574 |
| Carrying amount repayable based on contractual repayment dates: | | | |
| Within one year | 76,860 | 135,929 | 152,980 |
| More than one year, but not exceeding two years | 120,141 | 178,973 | 184,842 |
| More than two years, but not exceeding three years | 154,591 | 166,513 | 11,800 |
| More than three years, but not exceeding four years | 141,781 | 12,460 | 11,800 |
| More than four years, but not exceeding five years | — | 12,460 | 35,400 |
| After five years | — | 178,178 | 644,752 |
| | 493,373 | 684,513 | 1,041,574 |
| Less: Amount due within one year shown under current liabilities | (76,860) | (135,929) | (152,980) |
| Amount due after one year | 416,513 | 548,584 | 888,594 |

Variable rate borrowings comprise:

| | Carrying amount | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| RMB bank loans | 493,373 | 684,513 | 1,041,574 |

The effective interest rates of the borrowings were ranging from 5.9%–7.0% p.a., 5.4%–6.6% p.a. and 4.3%–5.2% p.a. for each of the three years ended 31 December 2013, 2014 and 2015, respectively.

At the end of each reporting period, the Group has undrawn borrowing facilities which are expiring as follows:

| | **2013** | **2014** | **2015** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Floating rate: | | | |
| More than two years, but not exceeding three years | — | 253,725 | — |
| More than three years, but not exceeding four years | 339,277 | — | — |
| After five years | — | 2,849,602 | 2,187,248 |
| | 339,277 | 3,103,327 | 2,187,248 |

**30. DEFERRED TAX LIABILITIES (ASSETS)**

For the purpose of presentation in the combined statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2013** | **2014** | **2015** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Deferred tax assets | (1,613) | (1,801) | (360) |
| Deferred tax liabilities | 25,082 | 30,256 | 23,922 |
| | 23,469 | 28,455 | 23,562 |

The following are the major deferred tax assets and liabilities recognised and movements thereon during the Relevant Periods:

| | Accelerated tax depreciation | Distributable profits of PRC subsidiaries, associates and a joint venture | Others | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2013 | (143) | 22,841 | (1,436) | 21,262 |
| (Credit) charge to profit or loss *(note 12)* | (128) | 20,621 | 94 | 20,587 |
| Released upon dividends declared *(note 12)* | — | (18,380) | — | (18,380) |
| At 31 December 2013 | (271) | 25,082 | (1,342) | 23,469 |
| Charge (credit) to profit or loss *(note 12)* | 56 | 21,879 | (244) | 21,691 |
| Released upon dividends declared *(note 12)* | — | (16,705) | — | (16,705) |
| At 31 December 2014 | (215) | 30,256 | (1,586) | 28,455 |
| (Credit) charge to profit or loss *(note 12)* | (145) | 23,922 | 1,586 | 25,363 |
| Released upon dividends declared *(note 12)* | — | (30,256) | — | (30,256) |
| At 31 December 2015 | (360) | 23,922 | — | 23,562 |

*Note:* Others mainly represent difference arising from accrued expenses.

Under the Enterprise Income Tax Law in the PRC, withholding tax at the rate ranging from 5% to 10% is imposed on dividends in respect of profits earned by PRC subsidiaries, associates and a joint venture from 1 January 2008 onwards. Deferred taxation of HK$20,621,000, HK$21,879,000 and HK$23,922,000 in respect of distributable profit of PRC entities amounting of HK$206,214,000, HK$235,380,000 and HK$239,216,000 have been provided during the years ended 31 December 2013, 2014 and 2015, respectively. At the end of each reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was HK$168,105,000, HK$213,628,000 and HK$277,525,000. No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

As at 31 December 2013, 2014 and 2015, the Group has unused tax losses of approximately HK$192.8 million, HK$272.2 million and HK$447.8 million, respectively, available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses for the Relevant Periods due to unpredictability of future profit streams of the relevant entities. The unrecognised tax losses arising from subsidiaries operated in the PRC will expire as follows:

**Tax losses expiring in**

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| 2014 | 23,432 | — | — |
| 2015 | 22,396 | 13,000 | — |
| 2016 | 68,906 | 9,503 | 9,503 |
| 2017 | 11,617 | 11,617 | 11,617 |
| 2018 | 66,425 | 66,425 | 63,375 |
| 2019 | — | 171,639 | 171,126 |
| 2020 | — | — | 192,192 |
| | 192,776 | 272,184 | 447,813 |

During the years ended 31 December 2013, 2014 and 2015, approximately HK$20.6 million, HK$23.4 million and HK$13.0 million, respectively, tax losses expired.

**31. AMOUNT DUE TO A NON-CONTROLLING SHAREHOLDER OF SUBSIDIARIES**

The amount is unsecured and interest free. The non-controlling shareholder of subsidiaries agreed not to demand for repayment within one year from the end of each reporting period.

**32. SHARE CAPITAL**

The Company was incorporated and registered as an exempt company with limited liability under the Companies Law in the Cayman Islands on 4 January 2016.

The share capital as at 31 December 2013 and 2014 represented the aggregate amount of the share capital of Excellent Global and Lifestyle China Holdings. The share capital as at 31 December 2015 represented the aggregate amount of the share capital of Lifestyle China Holdings, Excellent Global, Global Top Limited and Majestic Eagle Limited which in aggregate less than HK$1,000. Pursuant to the Reorganisation, the Company has become the holding company of Excellent Global and Majestic Eagle Limited on 23 June 2016.

Further details of the changes in the Company's share capital are set out in the section headed "Share capital" in the Listing Document.

**33. RESERVE**

As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the Company's PRC subsidiaries are required to transfer 10% of their respective after-tax profits as reflected in the statutory financial statements of the PRC subsidiaries to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation, provided that such reserve fund is maintained a minimum of 25% of the registered capital.

**34. OPERATING LEASES**

**The Group as lessee**

| | **2013** | **2014** | **2015** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Minimum lease payments paid under operating leases during the year: | | | |
| Other assets | 516 | 584 | 653 |
| Leasehold land and buildings | 158,730 | 174,547 | 170,218 |
| | 159,246 | 175,131 | 170,871 |

During the years ended 31 December 2013, 2014 and 2015, the Group incurred HK$48,586,000, HK$16,331,000 and HK$41,955,000 contingent rents which was based on certain percentage of sales.

At the end of each reporting period, the Group has commitments for future minimum lease payments under non-cancellable operating leases (fixed rent only) which fall due as follows:

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Within one year | 166,401 | 167,300 | 159,558 |
| In the second to fifth year inclusive | 689,130 | 675,385 | 643,999 |
| Over five years | 1,102,392 | 900,963 | 709,851 |
| | 1,957,923 | 1,743,648 | 1,513,408 |

The above commitments represent commitment for leasing commercial properties amounting of HK$1,957,054,000, HK$1,742,947,000 and HK$1,512,683,000 and other assets amounting to HK$869,000, HK$701,000 and HK$725,000, respectively.

Operating lease payments represent rentals payable by the Group for leasing commercial properties and other assets which represented machineries. Rentals payable are predetermined at fixed amounts except for certain lease of which contingent rental are charged based on certain percentage of sales. Leases are generally negotiated for terms ranging from one to five years and rentals are fixed for terms ranging from one to two years except the lease of Shanghai Joinbuy Cityplaza by Shanghai Ongoing Department Store Limited, a non-wholly owned subsidiary of the Company, is for the period from 1 October 2004 to 30 September 2024, with an option to renew for a further 10 years upon the request from Shanghai Ongoing Department Store Limited in not less than 12 months before the expiry of the lease terms.

**The Group as lessor**

At the end of each reporting period, the Group has contracted with tenants for the following future minimum lease payments:

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Within one year | 84,609 | 82,248 | 66,229 |
| In the second to fifth year inclusive | 113,539 | 115,060 | 79,739 |
| Over five years | 2,034 | 1,842 | — |
| | 200,182 | 199,150 | 145,968 |

Leases are generally negotiated for terms ranging from one to five years.

In addition, the Group had contracted with its concessionaires to receive contingent rentals based on the concessionaires' turnover for terms ranging from one to two years.

**35. CAPITAL COMMITMENTS**

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Capital expenditure in respect of acquisition of property, plant and equipment and property development project contracted for but not provided in the combined financial statements | 105,400 | 1,456,000 | 946,500 |

### 36. PLEDGE OF ASSETS

As at 31 December 2013, 2014 and 2015, the Group has pledged certain of the Group's (i) property, plant and equipment in the PRC with carrying value of approximately HK$2,730.3 million, HK$2,694.2 million and HK$3,615.2 million, respectively; (ii) prepaid lease payments in the PRC with carrying value of approximately HK$673.6 million, HK$3,628.0 million and HK$2,848.6 million, respectively and (iii) properties under development with carrying value of approximately nil, nil, HK$778.7 million, respectively, to secure bank loan facilities in an aggregate amount of approximately HK$832.7 million, HK$3,787.8 million and HK$3,228.8 million, respectively.

### 37. RELATED PARTY DISCLOSURE

Except as disclosed elsewhere in the Financial Information, the Group had the following transactions and balance with related parties:

#### (a) Transactions

During the Relevant Periods, the Group had entered into the following significant transactions with the following related parties.

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Nature of related parties transactions** | | | |
| (i) Rental and management fee paid to Property JV *(note 2)* | 246,394 | 224,802 | 245,367 |
| (ii) Loan interest income received from Property JV *(note 2)** | 3,576 | 3,561 | 3,011 |
| (iii) Loan interest expenses paid to Property JV *(note 2)** | 592 | 839 | 375 |
| (iv) Concessionaire income received from certain subsidiaries of Chow Tai Fook Jewellery Group Limited ("CTF Group Entities") *(notes 1 and 2)* | 14,346 | 18,304 | 17,042 |
| (v) Rental expenses to a fellow subsidiary *(note 2)* | 10,336 | 10,719 | 11,505 |
| (vi) Rental income received from fellow subsidiaries *(note 2)* | 396 | 484 | 508 |
| (vii) Project management expenses paid to fellow subsidiaries *(note 2)* | 2,732 | 7,037 | 13,770 |
| (viii) Interest income received from fellow subsidiaries *(note 2)* | 437 | — | — |
| (ix) Interest expenses paid to fellow subsidiaries (of which HK$166,453,000, HK$161,785,000 and HK$161,785,000, respectively, were capitalised) *(note 2)* | 179,353 | 170,147 | 161,785 |
| (x) Consultancy fee paid to fellow subsidiaries *(note 2)* | 28,313 | 28,177 | 27,549 |

*Notes:*

(1) Dato' Dr. Cheng Yu-tung and Dr. Cheng Kar-shun, Henry, were the directors of LIHL and have control over CTF Group Entities. CTF Group Entities were regarded as related parties of the Group during the Relevant Periods.

(2) The Group's related party transactions were carried out in accordance with the terms and conditions mutually agreed by the contracting parties.

(3) As at 31 December 2013, 2014 and 2015, corporate guarantees were given to banks by LIHL to secure the Group's banking facility amounting to nil, HK$3,052.7 million and HK$2,891 million of which nil, HK$203.1 million and HK$703.8 million were drawn down by the Group, respectively.

**(b) Balances with related parties**

As at 31 December 2013, 2014 and 2015, concessionaire sales payable in note 28 above included amounts HK$8,626,000, HK$10,583,000 and HK$9,726,000, respectively, aged within 30 days due to CTF Group Entities. These trading balances are unsecured, non-interest bearing and repayable according to the terms of the concessionaire dealership agreement and on average is within 30 days.

**(c) Compensation of key management personnel**

The remuneration of the Directors and other members of key management personnel during each of the Relevant Periods are disclosed in note 14 above.

**38. RETIREMENT BENEFITS SCHEMES**

**Hong Kong**

The Group participates in a defined contribution scheme under Mandatory Provident Fund Scheme ("MPF Scheme"). Both the Group and the employee contribute 5% of the employee's relevant income, subject to a cap of monthly relevant income of HK$25,000 with effect from 1 June 2013 and revised to HK$30,000 with effect from 1 June 2014 for the MPF ordinance. No forfeited contribution was available to reduce the contribution payable in the future years.

**PRC**

The employees of the Group in the PRC are members of state-managed retirement benefit schemes operated by the respective local governments in relevant jurisdictions. The Group is required to contribute and recognise a specified percentage of payroll costs to the schemes to fund the benefits. The only obligations of the Group with respect to these schemes are to make the specified contributions and recognise the respective retirement pay in accordance with terms set out in the schemes and relevant jurisdiction requirements.

The total cost charged to profit or loss in respect of the above-mentioned schemes amounted to approximately HK$7.6 million, HK$9.3 million and HK$10.4 million, respectively.

**39. DETAILS OF A NON-WHOLLY OWNED SUBSIDIARY THAT HAS MATERIAL NON-CONTROLLING INTERESTS**

The table below shows details of a non-wholly-owned subsidiary of the Group that has material non-controlling interests:

| Name of subsidiary | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | | | Profit allocated to non-controlling interests | | | Accumulated non-controlling interests | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2013 | 2014 | 2015 | 2013 | 2014 | 2015 | 2013 | 2014 | 2015 |
| | | | | | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Wingold Limited | Hong Kong | 40% | 40% | 40% | 119,943 | 131,702 | 128,298 | 699,694 | 818,062 | 914,482 |

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

| **Wingold Limited** | **2013** | **2014** | **2015** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Current assets | 84,413 | 11,676 | 32,560 |
| Non-current assets | 2,157,844 | 2,418,347 | 2,620,507 |
| Current liabilities | 40,651 | 40,567 | 40,347 |
| Non-current liabilities | 452,370 | 344,301 | 326,515 |
| Equity attributable to owners of the Company | 1,049,542 | 1,227,093 | 1,371,723 |
| Non-controlling interests | 699,694 | 818,062 | 914,482 |

| | **Year ended 31/12/2013** | **Year ended 31/12/2014** | **Year ended 31/12/2015** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | 301,404 | 330,926 | 321,296 |
| Expenses | 1,547 | 1,672 | 551 |
| Profit for the year | 299,857 | 329,254 | 320,745 |
| Profit attributable to owners of the Company | 179,914 | 197,552 | 192,447 |
| Profit attributable to the non-controlling interests | 119,943 | 131,702 | 128,298 |
| Profit for the year | 299,857 | 329,254 | 320,745 |
| Other comprehensive income (expenses) attributable to owners of the Company | 51,312 | (20,001) | (47,817) |
| Other comprehensive income (expenses) attributable to the non-controlling interests | 34,207 | (13,334) | (31,878) |
| Other comprehensive income (expenses) for the year | 85,519 | (33,335) | (79,695) |
| Total comprehensive income attributable to owners of the Company | 231,226 | 177,551 | 144,630 |
| Total comprehensive income attributable to the non-controlling interests | 154,150 | 118,368 | 96,420 |
| Total comprehensive income for the year | 385,376 | 295,919 | 241,050 |
| Dividends paid to non-controlling interests | — | — | — |
| Net cash inflow (outflow) from operating activities | 6,529 | 1,752 | (289) |
| Net cash inflow from investing activities | 24,839 | 22,819 | 21,421 |
| Net cash outflow from financing activities | — | (95,943) | — |
| Net cash inflow (outflow) | 31,368 | (71,372) | 21,132 |

## F. EVENTS AFTER END OF REPORTING PERIOD

The following events took place subsequent to 31 December 2015:

On 4 January 2016, the Company was incorporated and registered as an exempt company with limited liability under the Companies Law in the Cayman Islands.

On 4 January 2016, 1 share of HK$0.10 in the Company was issued and allotted for cash at par to the initial subscriber, Sharon Pierson. On the same date, the said 1 share was transferred to LIHL for cash at par.

As part of the Reorganisation as set out in section headed "Reorganisation" in the Listing Document, the Company has become the holding company of the companies now comprising the Group through the following steps:

(i) the Company acquired from LIHL the entire issued share capital of Majestic Eagle Limited on 23 June 2016 for a consideration of the Company allotting and issuing 1 share of HK$0.10, credited as fully paid, to LIHL;

(ii) the Company acquired from LIHL the entire issued share capital of Excellent Global on 23 June 2016 in consideration of the Company allotting and issuing 1 share of HK$0.10, credited as fully paid, to LIHL;

(iii) pursuant to the written resolutions of the sole Shareholder passed on 23 June 2016, each of the issued and unissued shares of HK$0.10 each in the share capital of the Company was subdivided into 20 Shares of HK$0.005 each so that the share capital of the Company comprised 60 issued Shares; and

(iv) prior to the Listing, a total of 1,602,586,440 new Shares, all credited as fully paid, will be allotted and issued to LIHL by way of capitalisation of the amount (being approximately, HK$8,086.3 million as at Distribution Record Date as defined in the Listing Document) due from the Company to LIHL (note 25).

## G. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company or any of companies now comprising of the Group have been prepared in respect of any period subsequent to 31 December 2015.

Yours faithfully

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

*The following information set out in this Appendix does not form part of the Accountants' Report prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix I, to this listing document, and is included herein for information only.*

*The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this listing document and the Accountants' Report set out in Appendix I to this listing document.*

## A. UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to owners of the Company which has been prepared in accordance with paragraph 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Listing on the combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2015 as if the Listing had taken place on 31 December 2015.

This unaudited pro forma statement of adjusted combined 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 combined net tangible assets of the Group attributable to owners of the Company had the Listing been completed as at 31 December 2015 or at any future dates. It is prepared based on the combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2015 as set out in the combined financial statements contained in Appendix I to the Listing Document, and adjusted as described below.

| | **Audited combined net tangible assets of the Group attributable to owners of the Company as of 31 December 2015** | **Estimated listing expenses** | **Unaudited pro forma adjusted combined net tangible assets attributable to owners of the Company** | **Unaudited pro forma adjusted combined net tangible assets attributable to owners of the Company per Share** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$* |
| | *(Note 1)* | *(Note 2)* | | *(Note 3)* |
| Based on 1,602,586,500 Shares in issue immediately prior to the Listing | 1,913,799 | (21,814) | 1,891,985 | 1.18 |

*Notes:*

(1) The audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2015 is extracted from the Accountants' Report set forth in Appendix I to the Listing Document, which is based on the audited combined net assets of the Group attributable to owners of the Company as at 31 December 2015 of HK$1,913,799,000.

(2) The estimated listing expenses mainly include professional fees payable to the sponsor, the Company's legal advisers and reporting accountants and other listing related expenses, which are expected to be incurred by the Group subsequent to 31 December 2015.

(3) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share is arrived at after the adjustments as described in note 2 above and is based on 1,602,586,500 Shares expected to be in issue immediately prior to the Listing.

(4) No adjustment has been made to the audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2015 to reflect any trading result or other transaction of the Group entered into subsequent to 31 December 2015. In particular, the unaudited pro forma adjusted combined net tangible assets in the table above have not been adjusted to show the effect of the settlement of the amounts due to fellow subsidiaries which are non-trade in nature.

Subsequent to 31 December 2015, as part of the Reorganisation as set out in the section headed "Reorganisation" in the Listing Document, the amounts due to fellow subsidiaries which are non-trade in nature of approximately HK$8,032,155,000 as at 31 December 2015 will be settled prior to the listing of the Company by way of issue of new Shares to LIHL (the "Capitalisation Issue"). No pro forma adjustment has been made to the combined net tangible assets of the Group attributable to owners of the Company in connection with the Capitalisation Issue.

For illustrative purpose, had the Capitalisation Issue been completed on 31 December 2015, the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share, on the basis that 1,602,586,500 Shares expected to be in issue immediately prior to the Listing will be as follows.

| | **Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company taking into account of the Capitalisation Issue** | **Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share taking into account of the Capitalisation Issue** |
|---|---|---|
| | *HK$'000* | *HK$* |
| Based on 1,602,586,500 Shares in issue immediately prior to the Listing | 9,924,140 | 6.19 |

## B. ASSURANCE REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The following is the text of a report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in respect of the Group's unaudited pro forma financial information for the purpose of incorporation in this listing document.*

**Deloitte.**
**德勤**

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

**To the Directors of Lifestyle China Group Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Lifestyle China Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma statement of adjusted combined net tangible assets as at 31 December 2015 and related notes as set out on pages II-1 to II-2 of Appendix II to the listing document issued by the Company dated 30 June 2016 (the "Listing Document"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Listing Document.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Listing on the Group's financial position as at 31 December 2015 as if the event had taken place at 31 December 2015. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the three years ended 31 December 2015, on which an accountants' report set out in Appendix I to the Listing Document has been published.

**Directors' Responsibilities for the Pro Forma Financial Information**

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

**Our Independence and Quality Control**

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

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

**Reporting Accountants' Responsibilities**

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

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

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

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2015 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

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

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

**Opinion**

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong, 30 June 2016

*The following is the text of a letter, summary of valuations and valuation certificates prepared for the purpose of incorporation in this listing document received from DTZ Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of market values of the selected properties in the PRC as at 30 April 2016.*

DTZ CUSHMAN & WAKEFIELD 戴德梁行

16/F, Jardine House
1 Connaught Place
Central
Hong Kong

30 June 2016

The Board of Directors
Lifestyle China Group Limited
20th Floor, East Point Centre
555 Hennessy Road
Causeway Bay
Hong Kong

Dear Sirs,

**INSTRUCTIONS, PURPOSE & VALUATION DATE**

In accordance with the instructions of Lifestyle China Group Limited (the "Company") for us to carry out market valuations of the selected properties (the "Properties") held by the Company and its subsidiaries (hereinafter together as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values in existing state of the Properties as at 30 April 2016 (the "Valuation Date").

According to Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; the Company has selected the Properties for valuation: (1) that form part of the Group's property activities except for those with a carrying amount below 1% of the Group's total assets (the total carrying amount of property interests not valued does not exceed 10% of its total assets); (2) that do not form part of the Group's property activities with the carrying amount of a property interest is or is above 15% of the Group's total assets.

**DEFINITION OF MARKET VALUE**

Our valuation of each of the Properties represents its Market Value. The definition of Market Value adopted in The HKIS Valuation Standards 2012 Edition follows the International Valuation Standards published by the International Valuation Standards Council ("IVSC"). Market Value is defined by the IVSC as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion".

## VALUATION BASIS AND ASSUMPTION

Our valuations of the Properties exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In the course of our valuations of the Properties situated in the PRC, with reference to the PRC legal opinions of the legal advisers, we have prepared our valuation on the basis that transferable land use rights in respect of the Properties for their specific terms at nominal annual land use fees have been granted and that any premiums payable have already been fully paid. We have relied on the information and advice given by the Group and the PRC legal opinion of the legal advisers regarding the titles to the Properties and the interests in the Properties. We have also prepared our valuation on the basis that the owners have enforceable titles to the Properties and have free and uninterrupted rights to use, occupy or assign the Properties for the whole of the unexpired terms as granted.

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

## METHODS OF VALUATION

We have valued the Properties by Direct Comparison Approach assuming sale in its existing state and by making reference to comparable sales evidences as available in the relevant market or, wherever appropriate, we have taken into account the expended construction cost.

In valuing the Properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards 2012 Edition published by the Hong Kong Institutes of Surveyors.

## SOURCE OF INFORMATION

We have relied to a very considerable extent on the information given by the Group and the opinion of the PRC legal adviser as to the PRC laws. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of Properties, particulars of occupancy, development scheme, construction costs, site and floor areas and all other relevant matters.

We would point out that the copies of documents provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise the Company to make reference to the original Chinese edition of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

Dimension, measurements and areas included in this valuation report are based on the information provided to us and are therefore only approximation. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised that no material facts have been omitted from the information supplied.

**TITLE INVESTIGATION**

We have been provided by the Group with copies or extracts of documents. However, we have not searched the original documents to verify ownership or to ascertain any amendments to any documents. We have not been able to cause title search for the Properties in the PRC but we have made reference to the copies of the title documents which have been made available to us by the Group. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

**SITE INSPECTION**

Our valuers have inspected the exterior and, wherever possible, the interior of the Properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not able to report whether the Properties are free of rot, infestation and any other structural defects; no tests were carried out to any of the services. Moreover, we have not carried out investigation on site to determine the suitability of the soil conditions and services etc. of the Properties for any development. Our valuations have been prepared on the assumption that these aspects are satisfactory and that no unexpected extraordinary expenses or delays will be incurred during the construction period.

Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the Properties and we have assumed that the areas shown on the documents handed to us are correct.

**CURRENCY**

Unless otherwise stated, all sums stated in our valuations are in Renminbi, the official currency of the PRC.

We attach herewith a summary of valuations and our valuation certificates.

Yours faithfully,
For and on behalf of
**DTZ Cushman & Wakefield Limited**
**Philip C Y Tsang**
*Registered Professional Surveyor*
*(General Practice)*
*Registered China Real Estate Appraiser*
*MSc, MHKIS*
*Director*

Note: Mr. Philip C Y Tsang is a Registered Professional Surveyor (General Practice) who has over 23 years property valuation experience in the PRC.

## SUMMARY OF VALUATIONS

| Property | Market value in existing state as at 30 April 2016 | The Group's attributable interest | Market value in existing state as at 30 April 2016 attributable to the Group |
|---|---|---|---|
| | *RMB* | *%* | *RMB* |
| **Group I — Property held by the Group for owner-occupation in the PRC** | | | |
| 1. A commercial building, No. 68 Zhongjie Road, Shenhe District, Shenyang, Liaoning Province, the PRC 中國 遼寧省 沈陽市 沈河區 中街路68號 一幢商業大廈 | 1,480,000,000 | 100% | 1,480,000,000 |
| **Sub-total:** | 1,480,000,000 | | 1,480,000,000 |
| **Group II — Property held by the Group for development in the PRC** | | | |
| 2. Daning Project, 33 Qiu, 312 Jiefang, Daning Road, Jing'an District (formerly known as Zhabei District), Shanghai, the PRC 中國 上海市 靜安區 (前稱閘北區) 大寧街道 312街坊33丘 大寧項目 | 3,700,000,000 | 100% | 3,700,000,000 |
| **Sub-total:** | 3,700,000,000 | | 3,700,000,000 |
| **Grand Total:** | 5,180,000,000 | | 5,180,000,000 |

## VALUATION CERTIFICATE

### Group I — Property held by the Group for owner-occupation in the PRC

| | Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 30 April 2016 |
|---|---|---|---|---|
| 1. | A commercial building, No. 68 Zhongjie Road, Shenhe District, Shenyang, Liaoning Province, the PRC<br>中國<br>遼寧省<br>沈陽市<br>沈河區<br>中街路68號<br>一幢商業大廈 | The Property comprises a 4-storey plus 3 levels of basement commercial building erected on a land with a site area of 23,076.20 sq.m. The Property was completed in 2014.<br><br>As advised by the Group, the Property has a total gross floor area of approximately 115,182.39 sq.m: | The property is vacant. | RMB1,480,000,000<br><br>(100% interest attributable to the Group: RMB1,480,000,000) |

| Portion | Approximate Gross Floor Area *sq.m.* |
|---|---|
| **B1, L1 to L4** | |
| Commercial | 74,854.93 |
| **B2, B3** | |
| Car parks and others | 40,327.46 |
| Total: | 115,182.39 |

On Basement 2 and 3, there are 476 car parks.

The Property is located at Zhenyang Street of Shenhe District. Developments nearby are mainly commercial development. According to the Group, the Property is planned for commercial use; there is no environmental issues and litigation dispute; there is no plan to dispose of or change the use of the Property.

The land use rights of the Property have been granted for a term due to expire on 22 March 2050 for commercial services use.

*Notes:*

(1) According to State-owned Land Use Rights Certificate No. (2010) 0055 dated 22 April 2010, the land use rights of the Property with a site area of 23,076.20 sq.m. have been vested in 瀋陽卓遠置業有限公司 (Shenyang Forever Smart Company Limited*), a wholly owned subsidiary of the Company, for a term due to expire on 22 March 2050 for commercial services use.

* *for identification purpose only*

(2) According to Land Use Rights Grant Contract No. 2101012010A0028 dated 22 March 2010:

| | | |
|---|---|---|
| (i) | Grantee | : 瀋陽卓遠置業有限公司 (Shenyang Forever Smart Company Limited*) |
| (ii) | Site Area | : 23,076.20 sq.m. |
| (iii) | Land Use | : Commercial services uses |
| (iv) | Plot Ratio | : Not higher than 5.30 |
| (v) | Land Premium | : RMB423,817,489.2 |
| (vi) | Building Covenant | : To complete the construction before 31 December 2012 |

(3) According to Planning Permit for Construction Works No. 210100201000194 dated 31 December 2010, the Property has been permitted for the construction works.

(4) According to Permit for Commencement of Construction Works No. 210100201103010601 dated 1 March 2011, the construction works of the Property was in compliance with the requirement of works commencement.

(5) According to Shenyang Housing Registration Centre Letter dated 16 March 2016, the housing at No. 68 Zhongjie Road, with a total gross floor area of 115,182.39 sq.m. for commercial use, complies with the housing registration standard.

(6) According to Business License No. 210100400001676, 瀋陽卓遠置業有限公司 (Shenyang Forever Smart Company Limited*) was established with a registered capital of RMB710,090,392 for a valid operation period from 1 December 2006 to 1 December 2036.

(7) According to the PRC legal opinion by 中倫律師事務所 (Zhong Lun Law Firm):

(i) 瀋陽卓遠置業有限公司 (Shenyang Forever Smart Company Limited*) has obtained State-owned Land Use Rights Certificate of the land with a site area of 23,076.20 sq.m. for a term due to expire on 22 March 2050 for commercial services use;

(ii) the construction of the Property had obtained Shenyang Urban and Rural Construction Committee approval, it complied with the works commencement requirement; the Housing Construction Completion and Acceptance Filing Record has also been obtained;

(iii) 瀋陽卓遠置業有限公司 (Shenyang Forever Smart Company Limited*) has obtained all the relevant materials for registration of property rights with an actual surveyed total gross floor area of 115,182.39 sq.m. There is no legal obstacle to apply for the Real Estate Title Certificate and the application for the Real Estate Title Certificate has been submitted. There is no legal obstacle for 瀋陽卓遠置業有限公司 (Shenyang Forever Smart Company Limited*) to operate in the Property before the obtaining of the Real Estate Title Certificate.

(iv) the Property is subject to a mortgage to Bank of Communications Co., Ltd. Liaoning Branch (交通銀行股份有限公司遼寧省分行) for a loan period till 25 July 2018; and

(v) 瀋陽卓遠置業有限公司 (Shenyang Forever Smart Company Limited*) legally owns the Property and is entitled to possess, use, transfer or mortgage the Property.

(8) The status of the title and grant of major approvals and licenses in accordance with the information provided by the Group and the legal opinion are as follows:

| | |
|---|---|
| State-owned Land Use Rights Certificate | Yes |
| Real Estate Title Certificate | No (Please refer to notes (7)(iii)) |
| Land Use Rights Grant Contract | Yes |
| Planning Permit for Construction Works | Yes |
| Permit for Commencement of Construction Works | Yes |
| Shenyang Housing Registration Centre Letter | Yes |
| Business License | Yes |

(9) In valuing the Property in existing state, we have assumed about RMB18,780 per sq.m. for the commercial portion. In undertaking our valuation of the Property, we have made reference to sales prices of relevant similar commercial premises within the same district which have characteristics comparable to the Property. The comparables are 3 commercial properties, built in between 2010 to 2016, in Huanggu District and Tiexi District with floor area range from 1,000 to 2,500 sq.m. They are selected as there is no material difference between the comparables and the Property and they are similar in use. Adjustments have also been taken into account that they are relatively smaller in size than the Property. The prices of commercial premises range from about RMB24,600 to RMB26,000 per sq.m. The unit rates assumed by us are consistent with the relevant comparable after due adjustments for factors, include but not limited to, location, accessibility, floor, etc. There was no material adjustments to the factors because the comparables were relevant and similar to the Property.

(10) Ms. Selena Wang, valuer of DTZ Shenyang Office (a Registered China Real Estate Appraiser with 6 years' property valuation experience in the PRC), inspected the Property in December 2015.

## VALUATION CERTIFICATE

### Group II — Property held by the Group for development in the PRC

| | Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 30 April 2016 |
|---|---|---|---|---|
| 2. | Daning Project,<br>33 Qiu, 312 Jiefang,<br>Daning Road,<br>Jing'an District (formerly known as Zhabei District),<br>Shanghai,<br>the PRC<br>中國<br>上海市<br>靜安區(前稱閘北區)<br>大寧街道312街坊33丘<br>大寧項目 | The Property comprises a proposed commercial building erected on a land with a site area of 50,153.50 sq.m. The Property is scheduled for completion in about 2018.<br><br>According to the Group, the Property is planned for commercial and office uses with the breakdown summarised as below:<br><br>**Gross Floor Area** *sq.m.*<br><br>**Above ground**<br>**Use**<br>Commercial and others 98,019<br>Office 81,097<br><br>Sub-total: 179,116<br><br>**Basement**<br>**Use**<br>Commercial and others 169,221<br><br>Grand Total: 348,337<br><br>The Property is located at Daning Road of Jing'an District, which is in urban area of Shanghai. Developments nearby are mainly commercial and residential development. According to the Group, the Property is planned for commercial and office use; there is no environmental issues and litigation dispute; there is no plan to dispose of or change the use of the Property.<br><br>The land use rights of the Property have been granted for a term of 40 years due to expire on 26 July 2052 for commercial use, 50 years due to expire on 26 July 2062 for office use, 40 years due to expire on 26 July 2052 for other commercial and service (entertainment) uses, 50 years due to expire on 26 July 2062 for cultural and sports facilities uses. | Construction works of the office and basement are in progress. The commercial and others will be constructed in later stage. | RMB3,700,000,000<br><br>(100% interest attributable to the Group: RMB3,700,000,000) |

*Notes:*

(1) According to Shanghai Certificate of Real Estate Ownership No. HFDZZ (2012)013283 dated 16 October 2012, the land use rights of the land with a site area of 50,153.50 sq.m. has been granted to 利怡達商業置業(上海)有限公司 (Liyida Commercial Development (Shanghai) Co., Ltd.*), a wholly owned subsidiary of the Company, for a term of 40 years due to expire on 26 July 2052 for commercial use, 50 years due to expire on 26 July 2062 for office use, 40 years due to expire on 26 July 2052 for other commercial and service (entertainment) use, 50 years due to expire on 26 July 2062 for cultural and sports facilities use.

* *for identification purpose only*

(2) According to Grant Contract of Land Use Rights No. HZGT (2012)001 dated 31 May 2012:

| | | | |
|---|---|---|---|
| (i) | Grantee | : | 利怡達商業置業(上海)有限公司 (Liyida Commercial Development (Shanghai) Co., Ltd.*) |
| (ii) | Site Area | : | 50,153.50 sq.m. |
| (iii) | Land Use | : | Commercial, sports, cultural, other Commercial and service (entertainment) and office uses |
| (iv) | Plot Ratio | : | 3.5 |
| (v) | Land Premium | : | RMB2,467,000,000 |
| (vi) | Land Use Term | : | 40 years for commercial use<br>40 years for other Commercial and service (entertainment) use<br>50 years for office use<br>50 years for cultural and sports facilities use |

* *for identification purpose only*

(3) According to Planning Permit for Construction Use of Land No. HZD (2013)EA31010820134467 dated 20 May 2013, the construction site of land with a total site area of 50,153.50 sq.m. is in compliance with requirements of urban planning requirement.

(4) According to Planning Permit for Construction Works No. HZJ (2013)FA31010820135507 dated 4 November 2013, the property has been permitted for the foundation works.

According to Planning Permit for Construction Works No. HZJ (2013)FA31010820145271 dated 16 September 2014, the construction works comprising a total basement area of 169,221.00 sq.m. is in compliance with the construction works requirements and have been approved.

According to Planning Permit for Construction Works No. HZJ (2015)FA31010820155125 dated 13 August 2015, the construction works of 2 office buildings comprising a total gross floor area of 81,097.07 sq.m. is in compliance with the construction works requirements and have been approved.

(5) According to Permit for Commencement of Construction Works No. 1302ZB0006D01310108201302070619 dated 5 December 2013, the construction works of Foundation works of the Property was in compliance with the requirement of works commencement.

According to Permit for Commencement of Construction Works No. 1302ZB0006D01310108201302070619 dated 25 November 2014, the construction works of the Property was in compliance with the requirement of works commencement and was permitted to be developed with a total basement area of 169,221.00 sq.m.

According to Permit for Commencement of Construction Works No. 1302ZB0006D01310108201302070619 dated 15 October 2015, the construction works of the Property was in compliance with the requirement of works commencement and was permitted to be developed with a total gross floor area of 81,097.07 sq.m.

(6) According to the information provided by the Group, the estimated total construction cost is approximately RMB3,309,000,000; a construction cost of approximately RMB672,720,000 has been expended for the development of the office and basement of the Property as at 30 April 2016. In the course of our valuation, we have taken into account the above expended construction cost.

(7) According to Business License No. 310000400680756 dated 4 December 2012, 利怡達商業置業(上海)有限公司 (Liyida Commercial Development (Shanghai) Co., Ltd.*) was established a limited liability company with a registered capital of RMB2,500,000,000 for a valid operation period from 23 April 2012 to 22 April 2062.

(8) According to the PRC legal opinion by 中倫律師事務所 (Zhong Lun Law Firm):

(i) 利怡達商業置業(上海)有限公司 (Liyida Commercial Development (Shanghai) Co., Ltd.*) has obtained Shanghai Certificate of Real Estate Ownership of the land with a site area of 50,153.50 sq.m. for a term of 40 years due to expire on 26 July 2052 for commercial use, 50 years due to expire on 26 July 2062 for office use, 40 years due to expire on 26 July 2052 for other commercial and service (entertainment) use, 50 years due to expire on 26 July 2062 for cultural and sports facilities use;

(ii) the design of the project with commercial, office and basement have been approved; the basement construction of 169,221.00 sq.m. and office construction of 81,097 sq.m. had obtained Shanghai Zhabei District Construction and Transportation Commission approval, it complied with the works commencement requirement;

(iii) the Property is subject to a mortgage to Agricultural Bank of China Stock Co., Ltd. Shanghai Zhabei Branch (中國農業銀行股份有限公司上海閘北支行) and Industrial and Commercial Bank of China Ltd. Shanghai Jing'an Branch (中國工商銀行股份有限公司上海靜安支行) for a loan period till 30 December 2024; and

(iv) 利怡達商業置業(上海)有限公司 (Liyida Commercial Development (Shanghai) Co., Ltd.*) legally owns the Property and is entitled to possess, use, transfer or mortgage the Property.

(9) The status of the title and grant of major approvals and licenses in accordance with the information provided by the Group and the legal opinion are as follows:

| | |
|---|---|
| Shanghai Certificate of Real Estate Ownership | Yes |
| Land Use Rights Grant Contract | Yes |
| Planning Permit for Construction Use of Land | Yes |
| Planning Permits for Construction Works | Yes (basement and office) |
| Permit for Commencement of Construction Works | Yes (basement and office) |
| Business License | Yes |

(10) In valuing the Property in existing state, we have assumed about RMB17,300 per sq.m. for the accommodation value. In undertaking our valuation of the Property, we have made reference to sales prices of relevant similar composite land within the same district which have characteristics comparable to the Property. The comparables are 3 composite use land grant in Hongkou District and Jing'an District (formerly Zhabei District) with site area range from 23,000 sq m to 98,700 sq.m. They are selected as there is no material difference between the comparables and the Property and they are similar in land use with the Property. The prices of accommodation value range from about RMB25,700 to RMB27,000 per sq.m. The unit rates assumed by us are consistent with the relevant comparable after due adjustments for factors, include but not limited to, location, accessibility, plot ratio, etc. There was no material adjustments to the factors because the comparables were relevant and similar to the Property.

(11) Jack Sun, valuer of DTZ Shanghai Office (a member of China Appraisal Society with 10 years' property valuation experience in the PRC), inspected the Property in December 2015.

*Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman company law.*

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 4 January 2016 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.

## 1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on our Shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.

(b) Our Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## 2. ARTICLES OF ASSOCIATION

The Articles were adopted on 24 June 2016. The following is a summary of certain provisions of the Articles:

### (a) Directors

*(i) Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as our 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 our Board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of our Company or the holder thereof, they are liable to be redeemed.

Our Board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of our Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (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 our Company shall be at the disposal of our 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 our Company nor our Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of our Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(ii) Power to dispose of the assets of our Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries. Our Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting.

*(iii) Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which our Director is contractually entitled) must be approved by our 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.

*(v) Financial assistance to purchase shares of our Company or its subsidiaries*

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, our Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in our Company. There is no provision in the Articles that prohibits our Company from giving financial assistance for the purchase shares of its subsidiaries.

*(vi) Disclosure of interests in contracts with our Company or any of its subsidiaries*

A Director may hold any other office or place of profit with our Company (except that of the auditor of our Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as our 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 of, or otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, our Board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing our Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his interest at the meeting of our Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of our Board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Articles) is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of our Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which our Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where our Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which our Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company; or

(ee) 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 close associates and employees of our Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

*(vii) Remuneration*

The ordinary remuneration of our Directors shall from time to time be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst our Directors in such proportions and in such manner as our Board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. Our Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of our Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as our 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 our Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

Our Board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and ex-employees of our Company and their dependents or any class or classes of such persons.

Our Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as our Board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(viii) Retirement, appointment and removal*

At each annual general meeting, one third of our Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Our Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

Our Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on our Board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification.

A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and the members may by ordinary resolution appoint another in his place at the meeting at which such Director is removed. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to our Company at the registered office of our Company for the time being or tendered at a meeting of our Board;

(bb) if he becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of our Board (unless an alternate director appointed by him attends) for six (6) consecutive months, and our Board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law; or

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

Our Board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as our Board may determine and our Board may revoke or terminate any of such appointments. Our Board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as our Board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by our Board.

*(ix) Borrowing powers*

Our Board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

*Note:* These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of our Company.

*(x) Proceedings of our Board*

Our Board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

*(xi) Register of Directors and Officers*

The Companies Law and the Articles provide that our Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

**(b) Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

**(c) Alteration of capital**

Our Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as our Directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

Our Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(e) Special resolution — majority required**

Pursuant to the Articles, a special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles (see paragraph 2(i) below for further details).

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

**(f) Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting 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 fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of our Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where our Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

**(g) Requirements for annual general meetings**

An annual general meeting of our Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by our Board.

**(h) Accounts and audit**

Our Board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Companies Law or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of our Company except as conferred by law or authorised by our Board or our Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), our Company may send to such persons summarised financial statements derived from our Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarised financial statements, a complete printed copy of our Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of our Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from our Company, and also to the auditors for the time being of our Company.

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of our 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 representing not less than ninety-five per cent (95%) of the total voting rights at the meeting of all the members.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of our Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of our Company.

**(j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as our Board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as our Board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that our Board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. Our Board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

Our Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless our Board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

Our Board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which our Company has a lien.

Our Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as our Directors may from time to time require is paid to our Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as our Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as our Board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

**(k) Power for our Company to purchase its own shares**

Our Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and our Board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

**(l) Power for any subsidiary of our Company to own shares in our Company and financial assistance to purchase shares of our Company**

There are no provisions in the Articles relating to ownership of shares in our Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, our Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in our Company.

**(m) Dividends and other methods of distribution**

Subject to the Companies Law, our 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 our Board.

The Articles provide dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. Our Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

Whenever our Board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, our Board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as our Board may think fit. Our Company may also upon the recommendation of our Board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever our Board or our Company in general meeting has resolved that a dividend be paid or declared our Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by our Board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by our Board and shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

**(n) Proxies**

Any member of our Company entitled to attend and vote at a meeting of our 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 our Company or at a class meeting. A proxy need not be a member of our Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(o) Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, our Board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as our Board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but our Board may waive payment of such interest wholly or in part. Our Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as our Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, our Board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of our Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares, together with (if our Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as our Board determines.

**(p) Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

**(q) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our Company.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of our Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

**(s) Procedures on liquidation**

A resolution that our 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 our Company shall be wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if our 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, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If our Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

### (t) Untraceable members

Pursuant to the Articles, our Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, our Company has not during that time received any indication of the existence of the member; and (iii) our Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds, it shall become indebted to the former member of our Company for an amount equal to such net proceeds.

### (u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

## 3. CAYMAN ISLANDS COMPANY LAW

Our Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

### (a) Operations

As an exempted company, our Company's operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes 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**

Subject to all applicable laws, our Company may give financial assistance to Directors and employees of our Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in our Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, our Company may give financial assistance to a trustee for the acquisition of Shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, its subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, 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.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

### (e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. 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 paragraph 2(m) above for further details).

### (f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from 23 February 2016.

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 our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of our Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

**(n) Winding up**

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, 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 the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby 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. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them *(pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up 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. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

### (o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

### (p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

### (q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

## 4. GENERAL

Conyers Dill & Pearman, our Company's special legal counsel on Cayman Islands law, have sent to our Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI to this listing document. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

## A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES

### 1. Incorporation

Our Company was incorporated under the Companies Law as an exempted company with limited liability on 4 January 2016. Our Company has established a place of business in Hong Kong at 20th Floor, East Point Centre, 555 Hennessy Road, Causeway Bay, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 27 April 2016. Mr. Thomas Lau of G/F, Coombe Apartments, 15–17 Coombe Road, The Peak, Hong Kong has been appointed as the Hong Kong authorised representative of our Company for the purpose of Part 16 of the Companies Ordinance for acceptance of the service of process and notices on behalf of our Company required to be served on our Company in Hong Kong. As our Company was incorporated in the Cayman Islands, our operations are subject to the Companies Law and to our constitution which comprises the Memorandum and Articles of Association of our Company. A summary of relevant sections of the Memorandum and Articles of Association of our Company and the relevant aspects of the Cayman Islands company law is set out in Appendix IV to this listing document.

### 2. Changes in the share capital of our Company

As at the date of incorporation of our Company, the authorised share capital of our Company was HK$380,000 divided into 3,800,000 shares of nominal value of HK$0.10 each. The following alterations in the share capital of our Company have taken place since the date of our incorporation up to the date of this listing document:

(a) On 4 January 2016, 1 share was issued and allotted for cash at par to the initial subscriber, Sharon Pierson. On the same date, the said 1 share was transferred to Lifestyle for cash at par.

(b) As part of the Reorganisation,

(i) pursuant to a sale and purchase agreement dated 23 June 2016 entered into between our Company and Lifestyle, our Company acquired from Lifestyle the entire issued share capital of Majestic Eagle on 23 June 2016 for a consideration of US$2, which was satisfied by way of our Company allotting and issuing 1 share of HK$0.10, credited as fully paid, to Lifestyle;

(ii) pursuant to a sale and purchase agreement dated 23 June 2016 entered into between our Company and Lifestyle, our Company acquired from Lifestyle the entire issued share capital of Excellent Global on 23 June 2016 in consideration of our Company allotting and issuing 1 share of HK$0.10, credited as fully paid, to Lifestyle;

(iii) pursuant to the written resolutions of the sole Shareholder passed on 24 June 2016, (a) each of the issued and unissued shares of HK$0.10 each in the share capital of our Company was subdivided into 20 Shares of HK$0.005 each so that the share capital of our Company comprised 60 issued Shares and 75,999,940 unissued Shares of HK$0.005 each and (b) the authorised share capital of our Company was increased from HK$380,000 to HK$20,000,000 by the creation of an additional 3,924,000,000 Shares;

(iv) On the Distribution Record Date, our Company will capitalise all amount (being approximately, HK$8,086.3 million) due from our Company to Lifestyle (such amount being inclusive of the indebtedness assumed by our Company pursuant to the novation of inter-group loans owing by members of our Group to the Remaining Lifestyle Group) by allotting and issuing a total of 1,602,586,440 Shares (which is calculated based on the issued share capital of Lifestyle as at the Latest Practicable Date and assuming it will remain unchanged on the Distribution Record Date), credited as fully paid, to Lifestyle for the purpose of effecting the Distribution.

(c) Save as disclosed herein and in the paragraph headed "Written resolutions of the sole Shareholder on 24 June 2016" below, there has been no alteration in the share capital of our Company since the date of our incorporation.

**3. Written resolutions of the sole Shareholder on 24 June 2016**

On 24 June 2016, the following written resolutions were passed by the sole Shareholder pursuant to which, among other things:

(a) the Listing was approved and any Director was authorised to sign and execute such documents and do all such acts and things incidental to the Listing or as he or she considered necessary, desirable or expedient in connection with the implementation of or giving effect to the Listing;

(b) the Capitalisation Issue was approved and our Directors were authorised to allot and issue Shares pursuant to the Capitalisation Issue;

(c) our Company approved and adopted the Memorandum and Articles of Association with immediate effect;

(d) subject to the Spin-off Condition being fulfilled,

(i) subject to the "lock-up" provisions under Rule 10.08 of the Listing Rules, a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with (otherwise than pursuant to, or in consequence of, the exercise of any options which may be granted under any share option scheme of our Company, or by way of rights issues, scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or a specific authority granted by our Shareholders in general meetings) such number of Shares not exceeding 20% of the aggregate number of Shares in issue as at the Listing Date;

(ii) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to repurchase, on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose in accordance with all applicable laws and requirements of the Listing Rules (or of such other stock exchange), such number of Shares not exceeding 10% of the aggregate number of Shares in issue as at the Listing Date;

(iii) each of the general mandates referred to in paragraphs (i) and (ii) above will remain in effect until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Articles of Association to be held or when it is revoked, varied or renewed by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest; and

(iv) the general unconditional mandate mentioned in paragraph (i) above was extended by the addition to the aggregate number of Shares which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (ii) above, provided that such extended amount shall not exceed 10% of the aggregate number of Shares in issue as at the Listing Date.

**4. The Reorganisation**

In preparation for the listing of our Shares on the Stock Exchange, the companies comprising our Group underwent the Reorganisation and our Company became the holding company of our Group. For information with regard to the Reorganisation, please refer to the section headed “Reorganisation” in this listing document.

**5. Changes in the share capital of our Company’s subsidiaries**

The subsidiaries of our Company are listed in the accountants’ report set out in Appendix I to this listing document. Apart from those disclosed in the paragraphs headed “Changes in the share capital of our Company” above and the section headed “Reorganisation” in this listing document, the following alterations in the share capital (or registered capital, as the case may be) of the subsidiaries of our Company have taken place within the two years immediately preceding the date of this listing document:

***Suzhou Lifestyle Plaza***

On 17 November 2014, Suzhou Lifestyle Plaza entered into a merger and acquisition agreement with Ongoing (Suzhou) whereby it was agreed that Suzhou Lifestyle Plaza would acquire and merge with Ongoing (Suzhou), and after such merger and acquisition, Ongoing (Suzhou) would be dissolved. For details of the merger and acquisition, please refer to the paragraph headed “General — Establishment of Suzhou Lifestyle Plaza and acquisition of interests in Suzhou Land” in the section headed “History and development” in this listing document. After the merger, the total investment amount and registered capital of Suzhou Lifestyle Plaza was RMB1,371,409,350 and RMB683,955,600, respectively. The registered capital of RMB683,955,600 was contributed as to RMB120,000,000 by Lifestyle (China) Investment, RMB480,000,000 by Charm Wave and RMB83,955,600 by Nice Union. Following the above merger and acquisition, the shareholding interest in the registered capital of Suzhou Lifestyle Plaza is owned as to 17.54% by Lifestyle (China) Investment, 70.18% by Charm Wave and 12.28% by Nice Union.

Save as mentioned herein, there has been no alteration in the share capital (or registered capital, as the case may be) of the subsidiaries of our Company within the two years immediately preceding the date of this listing document.

**6. Repurchase by our Company of our own Shares**

This section includes information required by the Stock Exchange to be included in this listing document concerning the repurchase by our Company of our own securities.

***(a) Relevant legal and regulatory requirements***

The Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their own shares on the Stock Exchange subject to certain restrictions, amongst which it is provided that:

*(i) Shareholders' approval*

All proposed repurchases of securities (which must be fully-paid up in the case of shares) on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of its shareholders, either by way of a general mandate or by specific approval of a particular transaction.

Pursuant to the written resolutions of the sole Shareholder passed on 24 June 2016, subject to the Spin-off Condition being fulfilled, a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors to exercise all the powers of our Company to repurchase, on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose in accordance with all applicable laws and requirements of the Listing Rules (or of such other stock exchange), such number of Shares not exceeding 10% of the aggregate number of Shares in issue as at the Listing Date. The Repurchase Mandate will remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Articles of Association to be held or when it is revoked, varied or renewed by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

*(ii) Source of funds*

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands. 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 from time to time.

Under the Companies Law, any repurchases by our Company may be made out of profits of our Company, out of our Company's share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles of Association and subject to the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of our Shares to be repurchased must be provided for out of either or both of the profits or the share premium account of our Company, or, if authorised by the Articles of Association and subject to the Companies Law, out of capital.

*(iii) Shares to be repurchased*

The Listing Rules provide that our Shares which are proposed to be repurchased by our Company must be fully paid up.

***(b) Reasons for repurchases***

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Repurchases of Shares will only be made when and to the extent that our Directors believe that such repurchases will benefit our Company and our Shareholders. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or the earnings per Share.

***(c) Funding of repurchases***

In repurchasing our Shares, our Company may only apply funds of our Company legally available for such purpose in accordance with the Memorandum and the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of the current financial position of our Company as disclosed in this listing document, and taking into account the current working capital position of our Company, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse impact on the working capital and/or the gearing position of our Company as compared with the position disclosed in this listing document. However, our 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 position of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

***(d) Number of Shares which may be repurchased***

On the basis of 1,602,586,500 Shares in issue immediately after listing of our Shares (which is calculated based on the issued share capital of Lifestyle as at the Latest Practicable Date and assuming it will remain unchanged on the Distribution Record Date), our Directors would be authorised under the Repurchase Mandate to repurchase up to 160,258,650 Shares during the period in which the Repurchase Mandate remains in force.

***(e) General***

None of our Directors, nor, to the best of their knowledge, having made all reasonable enquiries, any of their respective close associates, have any present intention, if the Repurchase Mandate is exercised, to sell any Shares to our Company or our subsidiaries.

Our 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 and regulations of the Cayman Islands.

If as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert (as defined in the Takeovers Code), depending on the level of increase of our Shareholder's interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases of Shares pursuant to the Repurchase Mandate.

Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of our Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding public shareholding. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent that in the circumstances, there is insufficient public float as prescribed under the Listing Rules.

No core connected person (as defined in definition section of this listing document) of our Company has notified our Company that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

## B. FURTHER INFORMATION ABOUT THE BUSINESS

### 1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Company or our subsidiaries within the two years preceding the date of this listing document and are or may be material:

(i) the syndicated loan agreement dated 28 October 2014 entered into between Shanghai Liyida as borrower and the Shanghai Zhabei Branch of Agricultural Bank of China Limited and the Shanghai Jing'an Branch of Industrial and Commercial Bank of China Limited as lenders (the "**Lenders**"), pursuant to which the Lenders agreed to make available to Shanghai Liyida a loan for an amount up to RMB2,450,000,000;

(ii) the sale and purchase agreement dated 12 May 2016 entered into between Vision Pilot, Majestic Eagle and Lifestyle in relation to the acquisition of the entire issued share capital of Global Top in consideration of Majestic Eagle allotting and issuing 1 new share, credited as fully paid, to Lifestyle as directed by Vision Pilot;

(iii) the sale and purchase agreement dated 19 May 2016 entered into between Majestic Eagle and Lifestyle in relation to the acquisition of 1 share representing approximately 0.01% of the entire issued share capital of Lifestyle China from Lifestyle in consideration of HK$1.00;

(iv) the sale and purchase agreement dated 23 June 2016 entered into between our Company and Lifestyle in relation to the acquisition of the entire issued share capital of Majestic Eagle in consideration of our Company allotting and issuing 1 new share, credited as fully paid, to Lifestyle;

(v) the sale and purchase agreement dated 23 June 2016 entered into between our Company and Lifestyle in relation to the acquisition of the entire issued share capital of Excellent Global in consideration of our Company allotting and issuing 1 new share, credited as fully paid, to Lifestyle;

(vi) the deed of novation dated 23 June 2016 entered into between our Company, Lifestyle and Excellent Global in relation to the novation to our Company of all the liabilities in respect of all sums due or owing from Excellent Global to Lifestyle;

(vii) the deed of novation dated 23 June 2016 entered into between our Company, Lifestyle and Lifestyle China in relation to the novation to our Company of all the liabilities in respect of all sums due or owing from Lifestyle China to Lifestyle;

(viii) the deed of non-competition dated 24 June 2016 and executed by our Company, in favour of Lifestyle Properties (for itself and as trustee for each of its subsidiaries from time to time) containing the non-competition undertakings as more particularly set out in the paragraph headed "Non-compete undertaking between our Company and Lifestyle Properties" in the section headed "Relationship with our Controlling Shareholders and the Lifestyle Group" in this listing document; and

(ix) the deed of indemnity dated 28 June 2016 given by Lifestyle in favour of our Company (for ourselves and as trustee for our subsidiaries from time to time) containing, among other things, indemnities as more particularly set out in the paragraph headed "Estate duty, tax, non-compliances and other indemnities" in the section headed "Other information" in this Appendix;

(x) the trademark assignment dated 23 June 2016 entered into between Pilot Sky and Fine Shine Limited in relation to the assignment of certain trademarks in connection with the Jiuguang Brand registered in Hong Kong and Macau by Pilot Sky in consideration of HK$1.00;

(xi) the agreement dated 24 June 2016 entered into between Lifestyle, our Company, Pilot Sky and Fine Shine Limited in connection with the ownership, registration and use of trademarks in connection with the Jiuguang Brand as more particularly described in the paragraph headed "Trademarks in relation to the Jiuguang Brand" in the section headed "Relationship with our Controlling Shareholders and the Lifestyle Group" in this listing document; and

(xii) the sponsor agreement dated 29 June 2016 entered into between the Sponsor and our Company relating to the engagement of the Sponsor by our Company in connection with the Introduction.

## 2. Intellectual property

### *A. Trademarks*

*(a) Trademark owned by our Group*

As at the Latest Practicable Date, our Group had registered the following trademarks which are considered by us to be or may be material to our business:

| Trademark | Place of registration | Registration number | Name of owner | Class | Date of registration | Expiry date |
|---|---|---|---|---|---|---|
| 久光 | PRC | 3914251 | Pilot Sky | 35 | 7 October 2006 | 6 October 2016 |
| 久光 | PRC | 3914250 | Pilot Sky | 36 | 7 October 2006 | 6 October 2016 |
| 久光 | PRC | 3914247 | Pilot Sky | 35 | 7 October 2006 | 6 October 2016 |
| 久光 | PRC | 3914246 | Pilot Sky | 36 | 7 October 2006 | 6 October 2016 |
| WA-SAN-MAI | Hong Kong | 300761797 | Pilot Sky | 43 | 16 November 2006 | 15 November 2016 |
| WA-SAN-MAI | PRC | 5669689 | Pilot Sky | 43 | 7 January 2010 | 6 January 2020 |
| 和三昧 | Hong Kong | 300761805 | Pilot Sky | 43 | 16 November 2006 | 15 November 2016 |

| Trademark | Place of registration | Registration number | Name of owner | Class | Date of registration | Expiry date |
|---|---|---|---|---|---|---|
| 和味 | PRC | 5669688 | Pilot Sky | 43 | 7 January 2010 | 6 January 2020 |
| 久光 FRESHMART 鮮品館 | PRC | 10493827 | Pilot Sky | 35 | 7 November 2015 | 6 November 2025 |

*(b) Application for registration of trademark*

As at the Latest Practicable Date, our Group has applied for registration of the following trademarks which are considered by us to be or may be material to our business, the certificates of registration of which have not yet been granted, details of which are as follows:

| Trademark | Place of registration | Application number | Name of applicant | Class | Application date |
|---|---|---|---|---|---|
| 久光 | PRC | 16612797 | Pilot Sky | 35 | 1 April 2015 |
| 久光 | PRC | 16612795 | Pilot Sky | 35 | 1 April 2015 |
| 久光 FRESHMART 鮮品館 | PRC | 16612796 | Pilot Sky | 35 | 1 April 2015 |

*(c) Non-exclusive license to use trademark*

As at the Latest Practicable Date, our Group has been granted a non-exclusive license to use the following registered trademarks by Lifestyle Corporate Services Limited, a member of the Remaining Lifestyle Group *(Note):*

| Trademark | Place of registration | Registration number | Name of owner | Class | Expiry date |
|---|---|---|---|---|---|
| 利 福 | PRC | 3973258 | Lifestyle Corporate | 35 | 13 February 2017 |
| 利 福 | PRC | 3973257 | Lifestyle Corporate | 36 | 20 January 2019 |
| 利 福 | PRC | 5558456 | Lifestyle Corporate | 35 | 27 May 2020 |
| 利 福 | Hong Kong | 300182763 | Lifestyle Corporate | 35, 36 | 21 March 2024 |
| 利 福 Lifestyle | Hong Kong | 300182772 | Lifestyle Corporate | 35, 36 | 21 March 2024 |
| 利 福 Lifestyle | PRC | 3973260 | Lifestyle Corporate | 35 | 6 February 2018 |
| 利 福 Lifestyle | PRC | 3973259 | Lifestyle Corporate | 36 | 6 January 2021 |

*Note:* Please refer to the paragraph headed "Exempt continuing connected transactions — (1) Grant of rights to use trademarks by the Remaining Lifestyle Group to our Group" in the section headed "Continuing connected transactions" in this listing document for the background and reasons for the grant of, and additional details of, the above non-exclusive license.

### *B. Domain names*

As at the Latest Practicable Date, our Group was the registrant of the following domain names which are considered by us to be or may be material to our business:

| Domain name | Name of registrant | Registration date | Expiry date |
|---|---|---|---|
| jbcityplaza.com | Shanghai Joinbuy | 26 September 2003 | 26 September 2019 |
| jiu-guang.com | Shanghai Joinbuy | 20 July 2004 | 20 July 2018 |
| jiu-guang.cn | Shanghai Ongoing | 21 July 2004 | 21 July 2018 |
| jiuguangsz.com | Shanghai Joinbuy | 26 February 2007 | 26 February 2017 |
| jiuguangdl.com | Shanghai Joinbuy | 21 August 2007 | 21 August 2016 |
| jiuguangsy.com | Zhang Kaiqi | 11 April 2007 | 11 April 2017 |
| lifestylechina.com.hk | Lifestyle China | 29 March 2016 | 30 March 2017 |
| lifestylechina.com.cn | Lifestyle (China) Investment | 30 March 2016 | 30 March 2017 |

*Note:* The contents contained in the website above do not form part of this listing document.

## C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

### 1. Disclosure of interests or short position of Directors and chief executive of our Company in the shares, underlying shares or debentures of our Company and our associated corporations

Immediately following completion of the Spin-off, based on the information available on the Latest Practicable Date, the interests and/or short positions of our Directors and the chief executive of our Company in the shares, underlying shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (a) will have to be disclosed pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have taken under the SFO), (b) will be required pursuant to section 352 of the SFO, to be entered in the register required to be kept therein; or (c) will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules to be notified to our Company and the Stock Exchange (assuming their shareholdings in Lifestyle remain unchanged on the Distribution Record Date) are as follows:

*(i) Long positions in the Shares*

| Name of Director/ Chief executive | Capacity/Nature of interest | Number of Shares | Approximate percentage of shareholding % | *Note* |
|---|---|---|---|---|
| Mr. Thomas Lau | Beneficial owner | 66,051,460 | 4.12% | |
| | Interest of controlled corporations | 540,000,000 | 33.70% | 1 |
| | Interest of controlled corporation | 222,350,332 | 13.87% | 2 |
| Ms. Chan Chor Ling, Amy | Beneficial owner | 297,000 | 0.02% | |

*Notes:*

(1) Following completion of the Spin-off and assuming its shareholding in Lifestyle remains unchanged on the Distribution Record Date, United Goal will hold 540,000,000 Shares. United Goal is ultimately owned as to 80% by Mr. Thomas Lau through Asia Prime and as to 20% by a family trust of which Mr. Lau Luen Hung, Joseph and certain of his family members are eligible beneficiaries. By virtue of the SFO, Mr. Thomas Lau is deemed to be interested in the same parcel of Shares in which United Goal will be interested.

(2) Following completion of the Spin-off, Dynamic Castle, which is wholly-owned by Mr. Thomas Lau, will hold 222,350,332 Shares assuming that its shareholding in Lifestyle remains unchanged on the Distribution Record Date. By virtue of the SFO, Mr. Thomas Lau is deemed to be interested in the same parcel of Shares held by Dynamic Castle.

## 2. Particulars of service contract and letters of appointment

### *(a) Executive Director*

Our executive Director has entered into a service contract with our Company on 28 June 2016 for an initial term of 3 years with effect from 28 June 2016 and thereafter be continuous unless and until terminated by not less than six months' advance notice in writing served by either party on the other. There is no specific clause in the service contract providing for the amount of compensation in case of early termination. The annual basic remuneration (excluding the bonus mentioned below) of our executive Director is set out below. The basic remuneration of our executive Director after the expiry of the initial term shall be determined by our Board from time to time in accordance with the provisions of the Articles of Association for the time being in force and our executive Director shall abstain from voting and shall not be counted in the quorum in respect of the proposed resolution regarding the adjustment.

Pursuant to the terms of the service contract entered into between our executive Director and our Company, the annual remuneration (excluding the bonus mentioned below) of our executive Director is as follows:

| **Name** | **Annual remuneration** *HK$* |
|---|---|
| Mr. Thomas Lau | |
| — Director's fee | 200,000 |
| — Salary | 7,200,000 |

Our executive Director may be entitled to a discretionary bonus as may be determined by our Board in recognition of our executive Director's contribution in the day-to-day management of our Company having regard to the operating results of our Group and the performance of our Director as the Chief Executive Officer of our Company provided that our executive Director whose discretionary bonus is under determination shall abstain from voting and shall not be counted in the quorum in respect of the proposed resolution approving the discretionary bonus.

### *(b) Non-executive Director and independent non-executive Directors*

Each of our non-executive Director and our independent non-executive Directors has entered into a letter of appointment with our Company for a period of 3 years commencing from 24 June 2016 subject to the provision of retirement and rotation of Directors under the Articles of Association. Such appointment may be terminated by not less than one month's advance notice in writing served by either party on the other.

Pursuant to the terms of the letters of appointment entered into between our non-executive Director and our independent non-executive Directors on one part and our Company on the other part, the annual Director's fee payable to each of them is as follows:

| **Name** | **Annual Director's fee** *HK$* |
|---|---|
| Chan Chor Ling, Amy | 150,000 |
| Lam Kwong Wai | 150,000 |
| Cheung Yuet Man, Raymond | 150,000 |
| Cheung Mei Han | 150,000 |

Our non-executive Director and our independent non-executive Directors are not contractually entitled to any bonus and/or other remuneration for holding their office as a Director.

*(c)* Each of our Directors is entitled to reimbursement for all necessary and reasonable out-of-pocket expenses properly incurred in connection with the performance and discharge of his/her duties under the relevant service contract or letter of appointment.

*(d)* Save as disclosed in this listing document, none of our Directors has entered or proposed to enter into any service agreements with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

**3. Directors' remuneration**

(a) The aggregate sums of approximately HK$13.8 million, HK$12.4 million and HK$11.2 million were paid to our Directors as remuneration (including benefits in kind) for each of the three years ended 31 December 2015 respectively (being such part of the remuneration paid by the Lifestyle Group to our Directors which was allocated to our Group as expenses by reference to their involvement in the operations of our Group). Further information in respect of our Directors' remuneration is set out in Note 14 to the Accountants' Report in Appendix I to this listing document.

(b) Under the arrangements currently in force, it is estimated that an aggregate of approximately HK$5.9 million will be paid to our Directors as remuneration (including benefits in kind but excluding any discretionary bonus which may be paid to any executive Director) for the year ending 31 December 2016, comprising (i) HK$1.8 million (being such part of the estimated remuneration paid or payable by the Lifestyle Group to our executive Director attributable to the period from 1 January 2016 to 27 June 2016 which shall be allocated to our Group as expenses by reference to his involvement in the operations of our Group up to 27 June 2016) and (ii) HK$4.1 million (being the remuneration which will be paid by our Group to our Directors for the period from 24 or 28 June 2016 (where applicable) to 31 December 2016).

(c) None of our Directors or past directors of any member of our Group has been paid any sum of money for each of the three years ended 31 December 2015 respectively for (a) the loss of office as director of any member of our Group or any other office in connection with the management affairs of any member of our Group or (b) as an inducement to join or upon joining any member of our Group.

(d) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31 December 2015 respectively.

## 4. Substantial Shareholders

So far as our Directors or chief executive of our Company are aware, immediately following completion of the Spin-off, based on the information available on the Latest Practicable Date, the following persons (other than a Director or a chief executive of our Company) will have an interest and/or a short position in the Shares or underlying Shares or debentures of our Company that would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) or will be expected, directly or indirectly, to be interested in 10% or more of issued voting shares of any other member of our Group, once the Shares are listed on the Stock Exchange (assuming that their shareholdings in Lifestyle remain unchanged on the Distribution Record Date):

***Interests and long positions in Shares***

| **Name** | **Capacity** | **Number of Shares** | **Approximate percentage of shareholding** % | *Notes* |
|---|---|---|---|---|
| United Goal | Beneficial owner | 540,000,000 | 33.70% | 1, 4 |
| Asia Prime | Interest of controlled corporation | 540,000,000 | 33.70% | 1, 4 |
| Dynamic Castle | Beneficial owner | 222,350,332 | 13.87% | 2, 4 |
| Bellshill Investment Company | Beneficial owner | 371,122,958 | 23.16% | 3 |
| Qatar Holding LLC | Interest of controlled corporation | 371,122,958 | 23.16% | 3 |
| Qatar Investment Authority | Interest of controlled corporations | 371,122,958 | 23.16% | 3 |
| FMR LLC | Investment manager | 114,490,500 | 7.14% | |

*Notes:*

(1) Asia Prime, a company wholly-owned by Mr. Thomas Lau, holds 80% of the entire issued share capital of United Goal. By virtue of the SFO, Asia Prime is deemed to be interested in the same parcel of Shares comprising 540,000,000 Shares in which United Goal will be interested as beneficial owner following completion of the Spin-off (assuming that its shareholding in Lifestyle remains unchanged on the Distribution Record Date).

(2) Dynamic Castle is wholly-owned by Mr. Thomas Lau.

(3) Bellshill Investment Company is a wholly-owned subsidiary of Qatar Holding LLC, which in turn is wholly-owned by Qatar Investment Authority. By virtue of the SFO, Qatar Holding LLC and Qatar Investment Authority are deemed to be interested in the same parcel of Shares comprising 371,122,958 Shares to be held by Bellshill Investment Company as beneficial owner following completion of the Spin-off (assuming that its shareholding in Lifestyle remains unchanged on the Distribution Record Date).

(4) Mr. Thomas Lau is a director of United Goal and the sole director of Asia Prime and Dynamic Castle.

### *Interests in issued voting shares of other members of our Group*

| Name of shareholder | Name of members of our Group | Capacity | Number of shares held or interested/ Amount of capital contributed | Approximate percentage of interest | Notes |
|---|---|---|---|---|---|
| | | | | % | |
| Smart Success Investment Limited | Wingold | Beneficial owner | 4,000 | 40% | 1 |
| | Ample Sun | Beneficial owner | 4,000 | 40% | 2 |
| Joinbuy Investment | Shanghai Ongoing | Beneficial owner | US$3,600,000 | 30% | 3 |

*Notes:*

(1) Wingold is owned as to 60% by Win Early Limited and 40% by Smart Success Investment Limited, which, save for being a substantial shareholder of Wingold and Ample Sun by virtue of its 40% and 40% shareholdings in these companies, is an Independent Third Party.

(2) Ample Sun is owned as to 60% by Win Early Limited and 40% by Smart Success Investment Limited, which, save for being a substantial shareholder of Wingold and Ample Sun by virtue of its 40% and 40% shareholdings in these companies, is an Independent Third Party.

(3) The equity interest in Shanghai Ongoing is owned as to 65% by Gainbest, 30% by Joinbuy Investment and 5% by Joinbuy Group. Save for their respective 30% and 5% interest in Shanghai Ongoing and their respective 38% and 12% interest in Shanghai Joinbuy, Joinbuy Investment and Joinbuy Group are Independent Third Parties.

**5. Agency fees or commissions received**

Save as disclosed in this listing document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries within the two years ended on the date of this listing document.

**6. Disclaimers**

Save as disclosed in this listing document:

(a) none of our Directors or the chief executive of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of our associated corporations (within the meaning of Part XV of the SFO) immediately following completion of the Spin-off, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provision of the SFO), or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules to be notified to our Company and the Stock Exchange, in each case once our Shares are listed on the Stock Exchange;

(b) our Directors are not aware of any person (other than our Directors or the chief executive of our Company) who will, immediately following completion of the Spin-off, have an interest and/or a short position in our Shares or underlying Shares that would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) or who will be expected, directly or indirectly, to be interested in 10% or more of the issued voting shares of any other member of our Group, once our Shares are listed on the Stock Exchange;

(c) none of our Directors nor the experts referred to in the paragraph headed "Qualification and consent of experts" under the section headed "Other information" in this Appendix has any direct or indirect interest in the promotion of any member of our Company, or in any assets which have, within the two years immediately preceding the date of this listing document, been acquired or disposed of by, or leased to, any member of our Group, or are proposed to be acquired or disposed of by, or leased to, any member of our Group;

(d) none of our Directors nor the experts referred to in the paragraph headed "Qualification and consent of experts" under the section headed "Other information" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this listing document which is significant in relation to the business of our Group taken as a whole;

(e) none of our Directors has any existing or proposed service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));

(f) none of our Directors nor the experts referred to in the paragraph headed "Qualification and consent of experts" under the section headed "Other information" in this Appendix has received any agency fee, commissions, discounts, brokerage or other special terms from our Group within the two years immediately preceding the date of this listing document in connection with the issue or sale of any capital of any member of our Group; and

(g) none of our Controlling Shareholders nor any of our Directors is interested in any business apart from our Group's business which competes or is likely to compete, directly or indirectly, with the business of our Group.

## D. UNDERTAKINGS TO THE STOCK EXCHANGE PURSUANT TO THE LISTING RULES

### 1. Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except for the circumstances as permitted under Rule 10.08 of the Listing Rules.

### 2. Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and our Company that, except pursuant to the Spin-off, he/it shall not and shall procure that the relevant registered shareholder(s) shall not:

(a) in the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this listing document and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares in respect of which he/it is shown by this listing document to be the beneficial owner; and

(b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be one of our Controlling Shareholders,

in each case, save as permitted under the Listing Rules.

Pursuant to Note 3 to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has also undertaken to the Stock Exchange and our Company that, within the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this listing document and ending on the date which is 12 months from the Listing Date, he/it will:

(a) when he/it pledges or charges any Shares or other securities or interests in any securities of our Company beneficially owned by him/it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of Shares or securities of our Company so pledged or charged; and

(b) when he/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares or securities or interests in any securities of our Company will be disposed of, immediately inform us of such indications.

Our Company shall also inform the Stock Exchange in writing as soon as it has been informed of the above matters (if any) by our Controlling Shareholders and disclose such matters by way of a public announcement to be published in accordance with the Listing Rules as soon as reasonably practicable.

## E. OTHER INFORMATION

### 1. Estate duty, tax, non-compliances and other indemnities

Lifestyle has pursuant to a deed of indemnity dated 28 June 2016 (the "**Deed of Indemnity**") (the document referred to in paragraph (ix) in the sub-section headed "Summary of material contracts" in this Appendix) given indemnities in favour of our Company (for ourselves and as trustee for our subsidiaries), in connection with, inter alia, the following liabilities:

(a) any liability for Hong Kong estate duty which might be incurred by any member of our 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 our Group at any time on or before the Listing Date;

(b) tax liabilities (including all fines, penalties, costs, charges, expenses and interests incidental to or relating to taxation) and claims falling on any member of our Group resulting from or by reference to any income, profits, gains earned, accrued or received, or any transactions or events 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 or claims are chargeable against or attributable to any other person, firm, company or corporation;

(c) any penalty which may be imposed on any member of our Group, or any costs, expenses and losses which such company may suffer in connection with such penalty, due to the failure of such company to duly make all relevant filings or reports and supply all other information required to be supplied to any relevant PRC governmental authority, including but not limited to the relevant tax bureau and relevant administration of industry and commerce, or to observe any laws, regulations or rules in the PRC in this regard, on or before the Listing Date;

(d) any costs, claims, damages, expenses, losses, penalties, liabilities, actions and proceedings which a member of our Group may suffer from not having paid all requisite tax or obtained all relevant or necessary approvals, permits, licenses and/or certificates for conducting its businesses, whether in Hong Kong, the PRC or any part of the world, on or before the Listing Date, including but not limited to the non-compliances as disclosed in this listing document; and

(e) all statutory compensations (including without limitation severance and long-service payments) payable by our Group to the Relevant Employees as employees which are attributable to their previous term of employment with the Remaining Lifestyle Group and the Lifestyle Properties Group prior to the Spin-off. For this purpose, the expression "Relevant Employees" means all those previous employees of the Remaining Lifestyle Group and the Lifestyle Properties Group whose employment has been transferred to any member of our Group in connection with or for the purpose of the Spin-off.

Lifestyle will, however, not be liable under the Deed of Indemnity under the following circumstances:

Lifestyle is under no liability under the Deed of Indemnity in respect of any taxation:

(A) In respect of the indemnity contained in paragraphs (a) to (b) above:

(i) to the extent that provision or reserve has been made for such taxation in the audited combined accounts of our Group as set out in Appendix I to this listing document or in the audited accounts of any member of our Group up to 31 December 2015; or

(ii) to the extent that such taxation or liability for such taxation falling on any members of our Group would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of our Group after the Listing Date without the prior written consent or agreement of Lifestyle other than any such act, omission or transaction carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date; or

(iii) in respect of such taxation or liability for such taxation for which any member of our Group is primarily liable as a result of acts or transactions carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the end of the Track Record Period; or

(iv) to the extent that such taxation or liability for such taxation arises or is 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 Inland Revenue Department of Hong Kong 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 taxation or liability for such taxation arises or is increased by an increase in rates of taxation after the date of the Deed of Indemnity with retrospective effect; or

(v) to the extent of any provision or reserve made for taxation in the audited combined accounts of our Group as set out in Appendix I to this listing document or in the audited accounts of any member of our Group up to the end of the Track Record Period and which is finally established to be an over-provision or an excessive reserve in which case Lifestyle's liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve shall not be applied pursuant to this paragraph to reduce Lifestyle's liability in respect of taxation arising after the end of the Track Record Period or other liability for which Lifestyle is also liable under the indemnity contained in paragraphs (a), (c), (d) and/or (e) above; or

(vi) to the extent that any claim is made by our Group or any members of our Group after the expiry of the period of seven years following the Listing Date.

(B) In respect of the indemnity contained in paragraphs (c) to (d) above, to the extent that:

(i) provision or reserve has been made in the audited combined accounts of our Group as set out in Appendix I to this listing document or in the audited accounts of any member of our Group up to the end of the Track Record Period for such penalties, costs, expenses and losses falling within paragraphs (c) to (d) above; or

(ii) any penalties, costs, expenses and losses falling within paragraphs (c) or (d) above or any additional, extra or increased amount of such penalties, costs, expenses and losses arises or is incurred as a consequence of any retrospective change in the law, rules and regulations, or the interpretation or practice thereof by the 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

(iii) any claim is made by our Group or any member of our Group after the expiry of the period of seven years following the Listing Date.

## 2. Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against any member of our Group.

## 3. Sponsor

The Sponsor has declared its independence pursuant to Rule 3A.07 of the Listing Rules.

The Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, all our Shares in issue and to be issued as mentioned in this listing document.

Our Company agreed to pay the Sponsor a fee of HK$6,240,000 in respect of its services rendered as the sponsor to our Company for the Spin-off.

All necessary arrangements have been made to enable our Shares to be admitted into the CCASS.

## 4. Registration procedures

The register of members of our Company will be maintained in the Cayman Islands by Royal Bank of Canada Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company's share register in Hong Kong and may not be lodged in the Cayman Islands.

## 5. Taxation of holders of Shares

*(a) The Cayman Islands*

Under the present laws of the Cayman Islands, transfers and other disposals of Shares are exempted from the Cayman Islands stamp duty so long as our Company does not hold interests in land in the Cayman Islands.

*(b) Hong Kong*

Dealings in our Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty and the current rate charged on each of the purchaser and the seller is 0.1%. Profits from dealings in our Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

*(c) Generally*

Potential holders of our 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, our Shares. It is emphasised that none of our Company, our Directors, the Sponsor and all of their respective directors, agents or advisers nor any other parties involved in the Spin-off accepts responsibility for any tax effect on, or liabilities of, persons resulting from their subscription for, holding, purchase or disposal of or dealing in our Shares or exercising any rights attaching to them.

**6. Preliminary expenses**

The preliminary expenses of our Company are estimated to be approximately US$10,209 and are payable by our Company.

**7. Promoter**

There are no promoters of our Company.

**8. Qualification and consent of experts**

The following are the qualifications of the experts which have given opinions or advice which are contained in, or referred to in, this listing document:

| Expert | Qualification |
|---|---|
| BNP Paribas Securities (Asia) Limited | Licensed corporation holding a license under the SFO to carry on type 1 (dealing in securities), type 2 (dealing in futures contracts), 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO |
| Zhong Lun Law Firm | Legal advisers as to PRC law |
| Sit, Fung, Kwong & Shum | Legal advisers as to Hong Kong law |
| Conyers Dill & Pearman | Cayman Islands attorneys-at-law |
| Deloitte Touche Tohmatsu | Certified Public Accountants |
| DTZ Cushman & Wakefield Limited | Independent property valuers |
| China Insights Consultancy Limited | Industry expert |

Each of the Sponsor, the PRC Legal Advisers, the Hong Kong Legal Advisers, Conyers Dill & Pearman, Deloitte Touche Tohmatsu, the Property Valuer and China Insights Consultancy Limited has given and has not withdrawn its written consent to the issue of this listing document with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which they are respectively included.

**9. No material adverse change**

Save as disclosed in this listing document, our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2015, being the date to which the latest audited financial statements of our Group were made, and up to the date of this listing document.

**10. Miscellaneous**

(a) Save as disclosed in this listing document:

(i) within the two years preceding the date of this listing document, no share or loan capital of our Company or any of our subsidiaries has been issued, agreed to be issued or proposed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no founders, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;

(iv) within the two years preceding the date of this listing document, no commission, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;

(v) within the two years preceding the date of this listing document, no commission has been paid or payable for subscribing or agreeing to subscribe or procuring or agreeing to procure subscription for any shares in or debentures of our Company or any of our subsidiaries; and

(vi) our Company has no outstanding convertible debt securities.

(b) Save and except a partner of the Hong Kong Legal Advisers currently holds 24,000 Lifestyle Shares and is therefore expected to receive 24,000 Shares from the Distribution, none of the Sponsor, the PRC Legal Advisers, the Hong Kong Legal Advisers, Conyers Dill & Pearman, Deloitte Touche Tohmatsu, the Property Valuer and China Insights Consultancy Limited:

(i) is interested beneficially or non-beneficially in any shares in any member of our Group; or

(ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group saved as disclosed in this listing document.

(c) No company within our Group is presently listed on any stock exchange or traded on any trading system.

(d) Save as disclosed in this listing document, there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this listing document.

(e) There is no arrangement under which future dividends have been waived.

(f) In case at any discrepancies between the English language version and the Chinese language version of this listing document, the English language version shall prevail.

## DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Hong Kong Legal Advisers at 9th Floor, York House, The Landmark, 15 Queen's Road Central, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this listing document:

1. the Memorandum and the Articles of Association;

2. the audited financial statements of Global Top for each of the three years ended 31 December 2015;

3. the audited consolidated financial statements of Excellent Global and Lifestyle China for the three years ended 31 December 2015;

4. the statement of adjustments of the Company for the three years ended 31 December 2015;

5. the accountants' report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this listing document;

6. the report prepared by Deloitte Touche Tohmatsu on unaudited pro forma financial information, the text of which is set out in Appendix II to this listing document;

7. the valuation report (including a letter, a summary of valuation and the valuation certificates) prepared by the Property Valuer relating to the property interests of our Group, the text of which is set out in Appendix III to this listing document;

8. the legal opinions prepared by the PRC Legal Advisers in respect of certain aspects of our Group and the property interests of our Group in the PRC;

9. the letter of advice prepared by the Hong Kong Legal Advisers in respect of the non-compliance with the WPCO;

10. the letter of advice prepared by Conyers Dill & Pearman, the Cayman Islands legal advisers, summarising the constitution of our Company and certain aspects of the Cayman Islands company law as referred to in Appendix IV to this listing document;

11. the Companies Law;

12. the material contracts referred to in the section headed "Summary of material contracts" in Appendix V to this listing document;

13. the service contracts and letters of appointment with each of our Directors referred to in the section headed "Particulars of service contract and letters of appointment" in Appendix V to this listing document; and

14. the written consents referred to in the section headed "Qualification and consent of experts" in Appendix V to this listing document.

Lifestyle China Group Limited
利福中國集團有限公司