THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Hop Hing Group Holdings Limited, you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or the transferee or to the bank, stockbroker or other agent through which the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of Hop Hing Group Holdings Limited.

HOP HING GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 47)

(Warrant Code: 134)

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF SUMMERFIELD PROFITS LIMITED INVOLVING THE ISSUE OF CONVERTIBLE SECURITIES (2) PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL (3) PROPOSED APPOINTMENT OF A DIRECTOR AND CHIEF EXECUTIVE OFFICER AND (4) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser to Hop Hing Group Holdings Limited

BofA Merrill Lynch

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

粵海證券有限公司
GUANGDONG SECURITIES LIMITED

A letter from the Board is set out on pages 7 to 155 of this circular and a letter from the Independent Board Committee, containing its recommendation to the Independent Shareholders of the Company, is set out on page 156 of this circular. A letter from Guangdong Securities containing its advice to the Independent Board Committee and Independent Shareholders in respect of the Proposed Acquisition and the transactions contemplated under the Acquisition Agreement is set out on pages 157 to 182 of this circular.

A notice of EGM to be held at Tianshan and Lushan Rooms, Level 5, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Admiralty, Hong Kong on Tuesday, January 17, 2012 at 11:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed with this circular.

Whether or not you are able to attend the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, situated at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

December 30, 2011

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In this circular, unless the context otherwise requires, the following items shall have the meanings set out below:

"Acquisition Agreement"	the conditional Acquisition Agreement dated December 1, 2011 entered into between the Company and the Seller in relation to the Proposed Acquisition
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors of the Company
"BJ Yoshinoya Fast Food"	北京吉野家快餐有限公司 (Beijing Yoshinoya Fast Food Co., Ltd.*), a company incorporated under the laws of PRC and a wholly-owned subsidiary of the Target
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Company"	Hop Hing Group Holdings Limited, a company incorporated with limited liability in the Cayman Islands and the shares of which are listed on the main board of Stock Exchange (Stock Code: 47)
"Completion"	completion of the Proposed Acquisition pursuant to the Acquisition Agreement
"Consideration"	the consideration for the Proposed Acquisition
"Conversion Price"	the initial conversion price of HK$0.37 per Conversion Share for the Convertible Securities
"Conversion Rights"	the conversion rights attaching to the Convertible Securities
"Convertible Securities"	the perpetual subordinated convertible securities to be issued by the Company as the entire consideration for the Proposed Acquisition in accordance with the terms and conditions of the Acquisition Agreement
"Convertible Securities Holder(s)"	the person(s) in whose name(s) the Convertible Securities is/are registered
"Conversion Share(s)"	any new Share(s) to be issued by the Company upon the holders of the Convertible Securities exercising its/their conversion right(s) under and in accordance with the terms and conditions of the Convertible Securities
"Dairy Queen US"	American Dairy Queen Corporation, a company incorporated in Delaware, the United States of America

"Dalian Hexing Fast Food"	大連合興快餐有限公司 (Dalian Hexing Fast Food Co., Ltd.*), a company incorporated under the laws of PRC and a wholly-owned subsidiary of the Target
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened at Tianshan and Lushan Rooms, Level 5, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Admiralty, Hong Kong on Tuesday, January 17, 2012 at 11:00 a.m., for the Shareholders to consider and, if thought fit, approve, among other things, the Proposed Acquisition contemplated under the Acquisition Agreement and the proposed increase in authorized share capital of the Company
"Enlarged Group"	the Group immediately after Completion
"Euromonitor"	Euromonitor International Limited, an independent market research firm
"Franchise Business"	the Yoshinoya and Dairy Queen franchise business
"Franchise Holding Companies"	Hop Hing Fast Food Limited, Champ Base Investments Limited, Hop Hing Fast Food China North Investment Co., Ltd., and Hop Hing Franchise Limited, the contracting parties to the franchise agreements with Yoshinoya Japan and Dairy Queen US respectively
"Franchise Regions"	some or all of Beijing municipality, Tianjin municipality, the provinces of Hebei, Liaoning, Heilongjiang and Jilin, and the Inner Mongolia Autonomous Region (excluding airports, railway stations or highway service areas) in PRC
"Franchise Store(s)"	Yoshinoya and/or Dairy Queen stores
"Franchisor(s)"	Yoshinoya Japan and/or Dairy Queen US
"GDP"	gross domestic product
"Group"	the Company and its subsidiaries
"Guangdong Securities" or "Independent Financial Adviser"	Guangdong Securities Limited, a licensed corporation to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, and the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Proposed Acquisition contemplated under the Acquisition Agreement

"Harbin Hop Hing"	哈爾濱合興餐飲管理有限公司 (Harbin Hop Hing Catering Management Co., Ltd.*), a company incorporated under the laws of PRC and a wholly-owned subsidiary of the Target
"HuHeHaoTe Hop Hing"	呼和浩特合興隆餐飲管理有限公司 (HuHeHaoTe Hop Hing Catering Management Co., Ltd.*), a company incorporated under the laws of PRC and a wholly-owned subsidiary of the Target
"HHHL"	Hop Hing Holdings Limited, the predecessor listing vehicle of the Group, incorporated with limited liability in Bermuda
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
"HKICPA"	the Hong Kong Institute of Certified Public Accountants
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of PRC
"Hung Family"	Mr. Hung Hak Hip, Peter, Mr. Hung Ming Kei, Marvin and/or other members of the Hung family including Mr. Hung Hak Yau and Ms. Hung Wan Ling, Diana and Ms. Hung Chiu Yee and/or companies controlled by any of them and/or discretionary trusts of which any member of the Hung family is a discretionary beneficiary
"Intermediate SPVs"	the special purpose vehicles which hold the Franchise Holding Companies and the PRC Operating Companies, namely Hung's China (Beijing) Limited, Amazing Limited, Hop Hing (Anegada) Limited, Asset Paradise Limited, Hop Hing Investment (Liaoning) Co., Ltd., Bravo Grain Holdings Limited, Excel Leader Group Limited, Best Realm Profits Limited and Starwood Shine Limited
"Independent Board Committee"	the independent board committee of the Board, comprising of Dr. Hon. Wong Yu Hong, Philip, *GBS,* Mr. Sze Tsai To, Robert, Mr. Cheung Wing Yui, Edward, Mr. Seto Gin Chung, John and Hon. Shek Lai Him, Abraham, *SBS, JP,* being all the independent non-executive Directors of the Company, established to advise the Independent Shareholders in respect of the Acquisition Agreement and the transactions contemplated thereunder (including the issue of Convertible Securities)
"Independent Shareholders"	the Shareholders other than Hung Family, Mr. Lee Pak Wing and their respective associates

"Last Trading Day"	November 18, 2011, being the last trading day for the Shares prior to suspension of the Shares and Warrants and prior to the announcement of the Company dated December 1, 2011
"Latest Practicable Date"	December 24, 2011, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information referred to in this circular
"Liaoning Hop Hing"	遼寧合興快餐有限公司 (Liaoning Hop Hing Fast Food Co., Ltd.*), a company incorporated under the laws of PRC and a wholly-owned subsidiary of the Target
"Listing Committee"	has the meaning ascribed to it under the Listing Rules
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Loan"	loans in the amount of approximately HK$44 million owed by the Target to the Seller and its associates
"Management Holding Company"	Hawick Limited, a company incorporated under the laws of Hong Kong
"Oils Business"	the business of purchasing, extracting, refining, blending, bottling, marketing and distribution of edible oils and fats for consumption by households and restaurants and other catering establishments in Hong Kong, Macau, PRC and overseas countries
"PRC"	the People's Republic of China excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan for the purposes of this circular
"PRC Operating Companies"	BJ Yoshinoya Fast Food, Harbin Hop Hing, Liaoning Hop Hing, Dalian Hexing Fast Food and HuHeHaoTe Hop Hing
"Proposed Acquisition"	the proposed acquisition of the Sale Shares and the Loan by the Company from the Seller pursuant to the Acquisition Agreement
"QSR"	quick service restaurant
"Reorganization"	the restructuring exercise completed by the Target Group such that the Target, the Management Holding Company, the Intermediate SPVs, Franchise Holding Companies and PRC Operating Companies that are intended to be acquired by the Company under the Acquisition Agreement were transferred to the Seller or its related companies

"RMB"	Renminbi, the lawful currency of PRC
"Sale Shares"	such number of shares of the Target legally and beneficially owned by the Seller immediately before Completion representing the entire issued share capital of the Target
"Seller"	Queen Board Limited, a company incorporated with limited liability in BVI
"Seller Group Companies"	the Seller and/or its associates
"SFO"	The Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (as amended from time to time)
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiaries"	has the meaning ascribed to it under the Listing Rules
"substantial shareholder"	has the meaning ascribed to it under the Listing Rules
"Target"	Summerfield Profits Limited, a company incorporated with limited liability in BVI
"Target Group"	Target and its subsidiaries
"Target Group Companies"	Target or its subsidiaries
"Track Record Period"	the three years ended December 31, 2010 and the six months ended June 30, 2011
"Warrants"	the warrants issued by the Company (Warrant Code: 134)
"Warrantholders"	holders of the Warrants
"Yoshinoya Japan"	Yoshinoya Holding Co., Ltd. (formally known as Yoshinoya D&C Co., Ltd.), a company incorporated under the laws of Japan; and/or Yoshinoya International Co., Ltd., a company incorporated under the laws of Japan

* *For identification only*

Set out below is the expected timetable, Shareholders should note that the timetable is subject to change:

Despatch of this circular on	December 30, 2011
Latest time for lodging forms of proxy for the EGM *(Note 1)*	11:00 a.m. on January 15, 2012
EGM to be held on *(Note 2)*	11:00 a.m. on January 17, 2012
Announcement of results of the EGM	January 17, 2012
Expected Completion Date	No later than June 30, 2012
Announcement of Completion	one business day after Completion

Notes:

1. In order to be valid, forms of proxy must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, by hand or by post at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

2. The transfer books and register of members of the Company will be closed from Saturday, January 14, 2012 to Tuesday, January 17, 2012, both days inclusive, during which period no transfer will be effected. In order to qualify for attending the EGM, all transfers of Shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on January 13, 2012 for registration.

3. All references in this circular to times and dates are references to Hong Kong times and dates.

HOP HING GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 47)
(Warrant Code: 134)

Executive Directors:
Wong Kwok Ying
Lam Fung Ming, Tammy

Non-executive Directors:
Hung Hak Hip, Peter *(Chairman)*
Hung Chiu Yee
Lee Pak Wing

Independent Non-executive Directors:
Wong Yu Hong, Philip
Sze Tsai To, Robert
Cheung Wing Yui, Edward
Seto Gin Chung, John
Shek Lai Him, Abraham

Registered Office:
Clifton House
75 Fort Street
P.O. Box 1350 GT
Grand Cayman
KY1-1108
Cayman Islands

Principal Place of Business in Hong Kong:
Units E&F
2nd Floor
Hop Hing Building
9 Ping Tong Street East
Tong Yan San Tsuen
Yuen Long
New Territories
Hong Kong

December 30, 2011

To the Shareholders and, for information only, the Warrantholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF SUMMERFIELD PROFITS LIMITED INVOLVING THE ISSUE OF CONVERTIBLE SECURITIES
(2) PROPOSED INCREASE IN AUTHORIZED SHARE CAPITAL
(3) PROPOSED APPOINTMENT OF A DIRECTOR AND CHIEF EXECUTIVE OFFICER
AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING

1. INTRODUCTION

Reference is made to the announcement of the Company dated December 1, 2011 in relation to the very substantial acquisition and connected transaction regarding the Proposed Acquisition, the proposed increase in authorized share capital of the Company and the proposed appointment of a director and Chief Executive Officer.

On December 1, 2011, the Company and the Seller entered into the Acquisition Agreement pursuant to which the Seller has agreed to sell the Sale Shares, representing the entire issued share capital of the Target, and the Loan, to the Company, for a total consideration of HK$3,475 million. The consideration for the Proposed Acquisition will be satisfied by the issue of the Convertible Securities by the Company to the Seller (or to its appointed nominee(s)). Upon payment of the Consideration at Completion, the Loan will be released by the Seller.

The Target is an investment holding company of a group of companies that owns the rights to operate the Yoshinoya (吉野家) and Dairy Queen quick service restaurant chains in the Franchise Regions. Upon Completion, the Target will become a wholly-owned subsidiary of the Company.

As at the Latest Practicable Date, the authorized share capital of the Company is HK$80,000,000 divided into 800,000,000 ordinary shares of HK$0.10 each. In order to ensure that a sufficient number of unissued Shares is available for the Company to allot and issue to the Seller (or its appointed nominee(s)) the Conversion Shares underlying the Convertible Securities, the Board proposed to increase the authorized share capital of the Company from HK$80,000,000 to HK$1,480,000,000, by the creation of an additional 14,000,000,000 unissued Shares of HK$0.10 each, which will rank *pari passu* with all the existing Shares when issued.

Upon Completion, the Board intends to appoint Mr. Hung Ming Kei, Marvin as an executive Director and Chief Executive Officer of the Company. After the appointment of Mr. Hung Ming Kei, Marvin as an executive Director, his appointment will be subject to retirement and re-election at the next following annual general meeting of the Company. Upon re-election, the length of the service of Mr. Hung Ming Kei, Marvin's service contract will not exceed three years.

As soon as the Target becomes a wholly-owned subsidiary of the Company, the continuing transactions between the Target and the Seller and their respective associates will become continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As certain of the percentage ratios for the Proposed Acquisition calculated in accordance with Rule 14.07 of the Listing Rules are over 100%, the Proposed Acquisition constitutes a very substantial acquisition under Chapter 14 of the Listing Rules. In addition, the Proposed Acquisition constitutes a connected transaction under Chapter 14A of the Listing Rules as the Target is an associate (as defined in Rule 1.01 of the Listing

Rules) of the Hung Family (a substantial shareholder of the Company). Accordingly, the Proposed Acquisition is subject to requirements for reporting, announcement and approval by the Independent Shareholders at the EGM by way of poll under the Listing Rules.

Merrill Lynch (Asia Pacific) Limited has been appointed as the financial adviser to the Company in connection with the Proposed Acquisition and the transactions contemplated thereunder.

An Independent Board Committee has been established to advise the Independent Shareholders in relation to the Proposed Acquisition and the transactions contemplated thereunder (including the issue of the Convertible Securities). Guangdong Securities has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The Company will convene an EGM for the Shareholders to consider and, if thought fit, to approve, among other things: (i) the Proposed Acquisition contemplated under the Acquisition Agreement; and (ii) the proposed increase in the authorized share capital of the Company.

The Hung Family, Mr. Lee Pak Wing (being a director of several Target Group Companies) and their respective associates will abstain from voting on the resolutions approving the Acquisition Agreement and the transactions contemplated thereunder (including the issue of the Convertible Securities).

The purpose of this circular is to provide you with, among other matters, (i) further details of the Proposed Acquisition contemplated under the Acquisition Agreement, the proposed increase in authorized share capital of the Company and the proposed appointment of a director and Chief Executive Officer; (ii) a letter from the Independent Board Committee regarding the Proposed Acquisition; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM.

2. THE ACQUISITION AGREEMENT

(A) Date

December 1, 2011

(B) Parties

(i) Purchaser: The Company

(ii) Seller: Queen Board Limited

The Seller is an investment holding company incorporated in the BVI and is wholly-owned by the Hung Family.

(C) Assets to be acquired

(1) the Sale Shares, representing the entire issued share capital of the Target; and

(2) the Loan (a dollar for dollar basis).

(D) Consideration

The Consideration payable by the Company to the Seller pursuant to the Acquisition Agreement will be HK$3,475 million, which will be satisfied upon Completion by the issue of the Convertible Securities to the Seller (or to its appointed nominee(s)). Upon payment of the Consideration at Completion, the Loan will be released by the Seller.

The Consideration was determined based on arm's length negotiations between the parties with reference to the operating and financial performance of the Target Group as well as the prospects of the Target Group's business. According to *Euromonitor,* the Target Group is one of the top five quick service restaurant chain operators in PRC serving Asian fast food and one of the top five ice-cream quick service restaurant chains in PRC based on number of stores as at December 31, 2010. In addition, the Target Group is also one of the top 5 quick service restaurant chain operators in Beijing, Shenyang and Dalian in terms of number of stores as of September 30, 2011. When determining the Consideration, the Company has taken into account the Target Group's store network and leading position in its key existing markets, historical growth and profitability, as well as future growth potential. In addition, the Company has considered the remaining term of the Franchise Business under the existing agreements as well as the Target Group's long-term relationship with the Franchisors and historical track record of expanding the scope of regions covered under the Franchise Business.

Given the asset-light model of retail businesses, the Company believes that it is more relevant to evaluate the Target Group based on its earnings rather than its asset base. Based on the figures extracted from the Accountants' Report on the Target Group, the Consideration represents approximately 25.9 times of the Target Group's total net profit for the twelve months ended June 30, 2011. The Company has evaluated the price to earnings multiples and growth rates of the Target Group's comparable listed companies with similar asset-light business models listed on the Stock Exchange and other international stock exchanges including restaurant companies in PRC (including Ajisen (China) Holdings Limited, Country Style Cooking Restaurant Chain Co., Ltd, Little Sheep Group Limited and Café de Coral Holdings Limited) as well as global restaurant franchisees (including Jubilant FoodWorks Limited, Arcos Dorados Holdings Inc. and Domino's Pizza Enterprises Limited) with finite franchise terms. The average price to earnings multiples for the relevant comparable listed restaurant companies in PRC for the latest available twelve-month period (based on closing share price as of the date of the Acquisition Agreement), the average net income growth rate for the financial years 2008 to 2010 and the average net income growth rate for the first half of financial year 2011 compared to first half of financial year 2010 were approximately 33.2 times, 31.8% and

–24.0% respectively. The average price to earnings multiples for the relevant global restaurant franchisee companies for the latest available twelve-month period (based on closing share price as of the date of the Acquisition Agreement), the average net income growth rate for the financial years 2008 to 2010 and the average net income growth rate for the first half of financial year 2011 compared to first half of financial year 2010 were approximately 37.3 times, 43.4% and 78.4% respectively.

The Company has also considered the key terms of the Convertible Securities, including the distribution rate, the conversion price and its adjustment mechanism, the automatic conversion clause and the potential dilution effects, among other major terms. Given the Company may at its sole discretion defer a distribution to the Convertible Securities Holders under the terms and conditions of the Convertible Securities, the Company can monitor the timing of distributions based on its financial position such that the distribution of the Convertible Securities will not create any undue financing pressure to the Group. On the above basis, the Directors consider the Consideration to be fair and reasonable. Further details of the terms of the Convertible Securities are set out below in the paragraph headed "Summary of Terms of the Convertible Securities" under the section headed "Information on the Convertible Securities" in this circular.

(E) Conditions precedent

Completion of the Proposed Acquisition is subject to the satisfaction or waiver by the Company and/or the Seller (as the case may be) of certain conditions precedent, including:

(i) the passing by the Shareholders (other than those who are required by the Listing Rules to abstain from voting) at the EGM of resolution(s) approving, among other things, the Proposed Acquisition and the transactions contemplated thereunder, including but not limited to, the issue of the Convertible Securities pursuant to the Acquisition Agreement and the allotment and issue of the Conversion Shares under the Convertible Securities;

(ii) the granting of the approval of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares;

(iii) approval of the Reorganization by all relevant government authorities and completion of the Reorganization;

(iv) the Company having received legal opinions from legal counsels on matters of BVI and PRC laws in form and substance satisfactory to the Company;

(v) the Company and the Seller having obtained all necessary consents and approvals (if any) from the relevant government or regulatory authorities or other third parties required for the execution and performance of the Acquisition Agreement by the Company and the transactions contemplated thereunder;

(vi) the representations, warranties and undertakings given by the Company and the Seller as set out in the Acquisition Agreement remaining true and accurate and not misleading in all material respects at Completion as if repeated at Completion and at all times between the date of the Acquisition Agreement and Completion;

(vii) no event having occurred since the date of the Acquisition Agreement up to Completion which has or is likely to have a material and adverse effect on the financial position, business or properties, results of operations or prospects of the Target Group; and

(viii) no government authority in any relevant jurisdiction having enacted any laws, rules or regulations which might render the completion of the Proposed Acquisition unlawful.

If any of the conditions precedent of the Acquisition Agreement is not satisfied or waived by the Company and/or the Seller (as the case may be) on or before June 30, 2012, the Acquisition Agreement shall automatically terminate with immediate effect and no party shall have any claim of any nature whatsoever against the other party under the Acquisition Agreement (save in respect of its accrued rights arising from any prior breach of the Acquisition Agreement).

In relation to condition (iv) above, the scope of the PRC legal opinion mainly covers the due incorporation and the legality of the PRC Operating Companies, the approvals obtained by the PRC Operating Companies for business operations in PRC, whether the PRC Operating Companies are subject to any litigation, lawsuit or winding-up process, etc. The BVI legal opinion mainly covers the due incorporation, valid existence, good standing and court search results. The legal due diligence review also includes conducting publicly available searches including company search, litigation search, liquidation search and bankruptcy search in Hong Kong. Furthermore, the Company, with the assistance of its financial adviser, has also conducted business due diligence (including site visits to restaurants and distribution centers, interviews with senior management and business division heads, assessment of business strategies, etc.) and financial due diligence (including review of key financials, revenue and cost drivers to the business, working capital requirements, capital expenditure and cash conversion cycle drivers, seasonality, store roll-out plan and strategies to drive same-store sales, etc.). Prior to the execution of the Acquisition Agreement, the Company has obtained preliminary findings from its professional advisors regarding the preliminary due diligence results, especially the due diligence results from the PRC legal adviser, Jun He Law Offices, on the PRC Operating Companies. Save for certain bringdown searches and due diligence reviews that may be conducted by the Company prior to Completion, the aforesaid due diligence review has been substantially completed by the Company. The Company is satisfied with the results of the due diligence review on the Target Group and there are no material irregularities based on the due diligence review.

(F) Completion

Completion of the Proposed Acquisition shall take place on the date agreed by the parties which shall be within three business days of the fulfilment of all the conditions precedent (or such other date as the parties may agree in writing). Upon Completion, the Target will become a wholly-owned subsidiary of the Company and the assets, liabilities and the financial results of the Target Group will be consolidated into the consolidated financial statements of the Company.

The Seller will be entitled to the dividend declared out of the Target Group's net profit for the year ended December 31, 2011.

3. INFORMATION ON THE CONVERTIBLE SECURITIES

(A) Summary of Terms of the Convertible Securities

Pursuant to the Acquisition Agreement, the Company shall issue the Convertible Securities to satisfy the Consideration. The terms of the Convertible Securities have been negotiated on an arm's length basis, the principal terms of which are summarized as follows:

Issuer:	The Company
Principal amount of the Convertible Securities:	HK$3,475 million
Status and subordination:	The Convertible Securities constitute direct, unsecured and subordinated obligations of the Company and rank *pari passu* without any preference or priority among themselves In the event of the winding-up of the Company, the rights and claims of the holders of the Convertible Securities shall (i) rank ahead of those persons whose claims are in respect of any class of share capital (including preference shares) of the Company; (ii) at all times rank *pari passu* with each other and with all its other present and future unsecured and subordinated obligations but shall be subordinated in rights of payment to the claims of all other present and future senior and unsubordinated creditors of the Company
Issue price:	100% of the principal amount of the Convertible Securities
Expected closing date:	Upon Completion
Maturity Date:	There is no maturity date

Distribution(s):	The Convertible Securities confer a right to receive distribution(s) from and including the date of the issue of the Convertible Securities at the rate of distribution payable quarterly in arrears on March 31, June 30, September 30 and December 31 each year, subject to the terms and conditions of the Convertible Securities
Rate of distribution:	3.5% per annum of any outstanding principal amount
Optional deferral of distributions:	The Company may, at its sole discretion, elect to defer a distribution pursuant to the terms and conditions of the Convertible Securities. The deferred distribution shall be non-interest bearing
Restriction on declaration of dividend:	If on any distribution payment date, payment of all distribution payments scheduled to be made on such date is not made in full, the Company shall not: (a) declare or pay any dividends on ordinary shares; (b) redeem, reduce, cancel, buy back any ordinary shares, unless and until (i) the Company satisfied in full all outstanding arrears of distribution; or (ii) it is permitted to do so by an extraordinary resolution of the holders of the Convertible Securities
Conversion Period:	Any time from the date of the issue of the Convertible Securities, subject to certain conditions as provided in the terms and conditions of the Convertible Securities
Conversion Price:	Initially HK$0.37 per Share, subject to adjustment as provided for in the terms and conditions of the Convertible Securities
Restriction on conversion:	The Conversion Rights shall not be exercised by the holder of the Convertible Securities, or when it is exercised by virtue of a conversion notice having been given, the Company shall not be obliged to issue any Conversion Shares but may treat that conversion notice as invalid, if it comes to the notice of the Company that immediately following such conversion, the Company will be unable to meet the public float requirement under the Listing Rules

Fractional Shares:	Fractions of Shares will not be issued on conversion and no cash adjustments will be made in respect thereof. Notwithstanding the foregoing, in the event of a consolidation or re-classification of Shares by operation of law or otherwise occurring after the date of terms and conditions of the Convertible Securities, the Company will upon conversion of Convertible Securities pay in cash a sum equal to such portion of the principal amount of the Convertible Securities represented by the certificate deposited in connection with the exercise of Conversion Rights as corresponds to any fraction of a Share not issued as aforesaid if such sum exceeds HK$100
Conversion Price adjustment:	The Conversion Price will be subject to adjustment for, among other things, subdivision, re-classification or consolidation of Shares, capitalization of profits or reserves, issue of Shares by way of scrip dividend, bonus issues, rights issues of Shares or other securities or options over Shares, capital distributions (including distribution of assets in specie by the Company, any cash dividend or distribution of any kind by the Company) and other dilutive events (including issue of Shares at less than the current market price, modification of rights of conversion, etc. (as defined under the terms and conditions of the Convertible Securities)). When adjustment to the Conversion Price is made on every cash dividend payment, it will not have the same effect as dividend payment to the Convertible Securities Holder(s), as the adjustment will not result in any cash payment being made to the Convertible Securities Holder(s). In case of other dilutive events (such as issue of Shares at less than the current market price, modification of rights of conversion, etc.), the application of the Conversion Price adjustment is subject to a discount threshold of 10% of the then current market price. The adjusted Conversion Price will in any event be above the par value of the Shares
	The Convertible Securities are structured to be subordinated to all other debt of the Company. In addition, the Company has sole discretion to defer a distribution at any point of time and the deferred distribution shall be non-interest bearing. As such, the holders of the Convertible Securities are effectively taking equity risk

The Conversion Price adjustment is structured to ensure that the Convertible Securities Holder(s) will not be worse off in the adjustment events mentioned above. This is because the initial conversion price was set taking into account the latest share price. In the event of declaration of cash dividend, the prevailing share price will be adjusted after ex-dividend date. Therefore, Conversion Price adjustment is required to adjust the Conversion Price to reflect the theoretical change on the prevailing share price due to the payment of dividend. If there were no such Conversion Price adjustment, in the event of any cash dividend, the Company's share price will decrease after ex-dividend date, and as such the Convertible Securities Holder(s) will be worse off. The Directors believe that the Conversion Price adjustment mechanism is a customary term for convertible securities issued in the market and thus consider this to be fair and reasonable to the Company and its Shareholders as a whole

Taking into account the above and the fact that (a) the size of the Proposed Acquisition is large as compared to the current size of the Company which significantly limits the available financing options available to the Company to fund the transaction, (b) through the issuance of the Convertible Securities, the Company will pay no cash consideration upfront, (c) the Target will contribute substantially all of the net profit to the Company after the Proposed Acquisition and as such any dividend payable by the Company will substantially be contributed by the Target's cashflow, the Directors consider the Proposed Acquisition as fair and reasonable to the Company and its Shareholders as a whole

Voting: The Convertible Securities Holder(s) will not be entitled to receive notice of, attend or vote at general meetings of the Company by reason only of its being a Convertible Securities Holder

Transferability:	Subject to the terms and conditions of the Convertible Securities, the Convertible Securities may be transferred by delivery of the certificate issued in respect of those Convertible Securities, with the form of transfer in the agreed form as set out in the terms and conditions of the Convertible Securities duly completed and signed, to the registered office of the Company or the specified office of any registrar which the Company may appoint. Upon a transfer of the Convertible Securities, a new certificate will be issued to the transferee. Where only part of a principal amount of the Convertible Securities in respect of which a certificate is issued is to be transferred, a new certificate in respect of the Convertible Securities not so transferred will be issued to the transferor. No transfer of a Convertible Securities will be valid unless and until entered on the register of Convertible Securities Holder(s)
Automatic Conversion:	At any time when a holder of the Convertible Securities is not a "connected person" under the Listing Rules, a principal amount of Convertible Securities which upon conversion will result in the holder of the Convertible Securities holding in aggregate just under 10% of the issued share capital of the Company shall be automatically converted into Conversion Shares The automatic conversion right is set out in the terms and conditions of the Convertible Securities which is the governing document of the Convertible Securities. The terms and conditions of the Convertible Securities constitute a binding contract between the Company and the holders of the Convertible Securities from time to time and, as such, the holders of the Convertible Securities are required to comply with terms and conditions set out under the terms and conditions of the Convertible Securities. The Company will be responsible for administering the mechanism of the conversion. If at any time a holder disposes the Shares or there is any change to the Company's issued share capital (e.g. the issued share capital has been enlarged) which results in a decrease in the shareholding of such holder, the Company will exercise its right under the terms and conditions of the Convertible Securities to convert such remaining portion of the Convertible Securities held by such holder into Shares to the extent that upon conversion the total number of Shares held by such holder shall be just under 10% of the issued share capital of the Company

The Automatic Conversion feature is structured to ensure that to the extent the converted shares of any Convertible Securities Holders can be recognized as free float, the Company will have the right to require such conversion. With the automatic conversion feature in place, additional shares will be issued once the Convertible Securities Holders convert their Convertible Securities into Shares, which may result in the Company's Shares being highly concentrated in a few Shareholders' hands. However, more shares will be tradable and can potentially enhance the trading volume and diversify the equity base of the Company. Thus, the Company believes that such feature may potentially benefit the Shareholders and hence is fair and reasonable to the Company and its Shareholders as a whole

Pre-emption right: Not more than 20 nor less than 15 business days (as defined in the terms and conditions of the Convertible Securities) prior to the Convertible Securities Holder delivering a certificate under the terms and conditions of the Convertible Securities to the Company or the registrar (as the case may be) for the transfer of Convertible Securities, the Convertible Securities Holder must notify the Company of the Convertible Securities Holder's intention to transfer the Convertible Securities in writing. Following the receipt by the Company of such notice, the Company may by no later than 15 business days after it has received the notice, elect to purchase and cancel all or some of the Convertible Securities of the subject of the relevant notice at the price specified in the notice (which is the price as agreed between the Convertible Securities Holder and the proposed transferee). The Company must complete the purchase of the relevant Convertible Securities within 15 business days after it has informed the Convertible Securities Holder that it has elected to purchase the Convertible Securities

The Convertible Securities are freely transferable. In the event that the Seller disposes all or part of the Convertible Securities to other third parties, the pre-emption right gives the Company a right, but not an obligation, to acquire such Convertible Securities should it deem that the transaction is beneficial to the Company and Shareholders at the time

	There is no early redemption right for the Company under the terms and conditions of the Convertible Securities. If and when the Company wants to repurchase such Convertible Securities in the future, the Company can reach bilateral arrangement with the Convertible Securities Holders. In the event the repurchase of the Convertible Securities is from a connected person of the Company, the Company will comply with the requirements under the applicable Listing Rules
Application for listing:	No application will be made for the listing of the Convertible Securities on the Stock Exchange or any other stock exchange. An application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares to be issued upon the exercise of the Conversion Rights attaching to the Convertible Securities

The maximum number of Shares which may be issued upon exercise of the Conversion Rights in full at the initial Conversion Price is 9,391,891,892, representing approximately 18 times and 94.8% of the existing and enlarged issued share capital of the Company, respectively. The maximum number of Shares which may be issued upon exercise of the Conversion Rights in full at par value is 34,750,000,000 Shares representing approximately 67 times and 98.5% of the existing and enlarged issued share capital of the Company, respectively.

The Proposed Acquisition, the Consideration and the terms and conditions of the Convertible Securities (including the Conversion Price) were negotiated between the Company and the Seller on arm's length basis as a whole and taking into account the factors considered as set out under the paragraph headed "Consideration" under the section headed "The Acquisition Agreement" in this circular. The Company has considered issuing debt to satisfy the Consideration, but it would have put undue refinancing pressure on the Enlarged Group. The Convertible Securities was adopted without maturity date to ensure it will not put undue refinancing pressure on the Enlarged Group. In exchange, the Seller has requested senior ranking of the Convertible Securities to preference shares of the Company.

The Conversion Shares will be issued under a specific mandate proposed to be obtained at the EGM.

(B) Conversion Price

The initial Conversion Price of HK$0.37 was determined after arm's length negotiations between the Company and the Seller, and it represents:

(i) a discount of approximately 21.3% to the closing price of HK$0.47 per Share as quoted on the Stock Exchange on December 23, 2011, being the last trading day before the Latest Practicable Date;

(ii) a discount of approximately 15.9% to the closing price of HK$0.44 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) approximately the average closing price of approximately HK$0.37 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day;

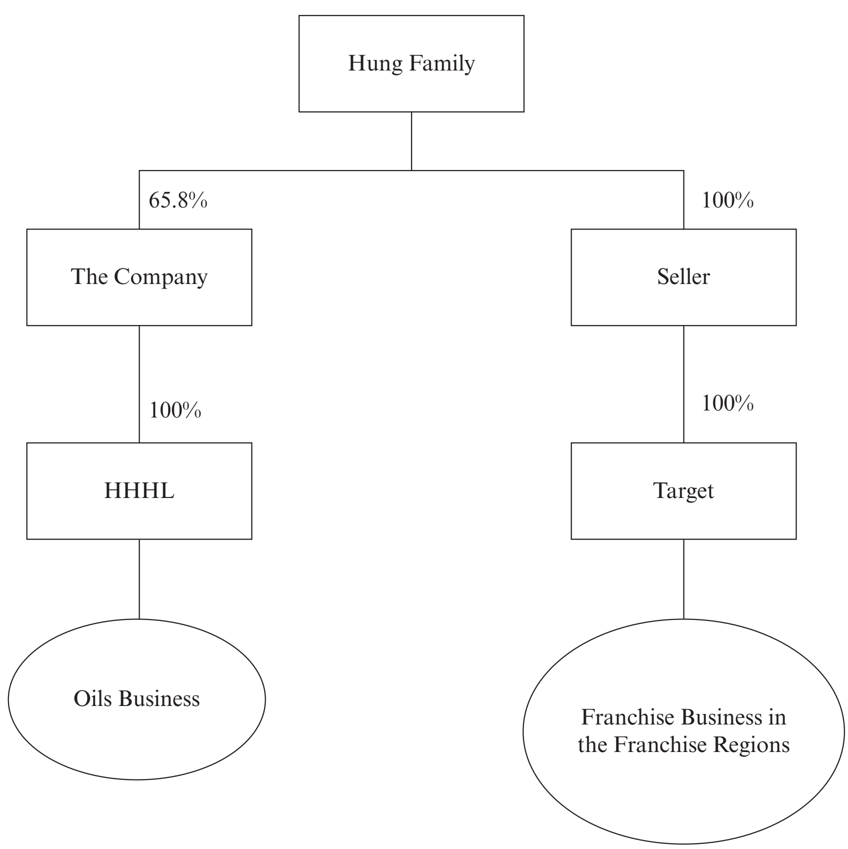
(iv) approximately the average closing price of approximately HK$0.37 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day;

(v) a premium of approximately 12.1% to the average closing price of approximately HK$0.33 per Share as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day; and

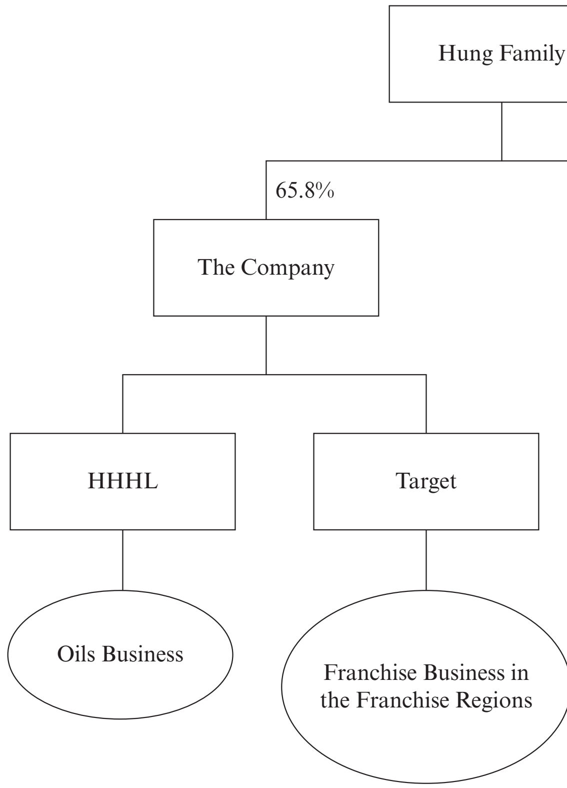
(vi) a premium of approximately 5.7% to the average closing price of approximately HK$0.35 per Share as quoted on the Stock Exchange for the 180 consecutive trading days up to and including the Last Trading Day.

4. EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following is the simplified shareholding structure chart of the Company and the Target after the Reorganization before Completion:



The following is the simplified shareholding structure chart of the Company and the Target Group immediately after Completion:



Note:

1. The Convertible Securities will be issued to the Seller or its appointed nominee(s).

The following table sets out the possible effects of the Proposed Acquisition on the shareholding structure of the Company (i) as at the date of the Acquisition Agreement; (ii) upon Completion and issuance of 152,435,760 Shares upon partial conversion of the Convertible Securities, (iii) upon Completion and upon full conversion of the Convertible Securities (assuming no additional Shares will be issued from the date of the Acquisition Agreement), and (iv) upon full conversion of the Convertible Securities at par value of HK$0.10.

Shareholder	As at the Latest Practicable Date		Immediately after Completion upon partial conversion of the Convertible Securities at initial conversion price of HK$0.37 (assuming the public float requirement is met)		Immediately after Completion upon full conversion of the Convertible Securities at initial conversion price of HK$0.37		Upon full conversion of the Convertible Securities at par value of HK$0.10[3]	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No of Shares*	*%*
Hung Family	339,229,231[1]	65.8%	491,664,991	73.6%	9,731,121,123	98.2%	35,089,229,231	99.5%
Other Directors	9,407,720[2]	1.8%	9,407,720	1.4%	9,407,720	0.1%	9,407,720	0.0%
Public Shareholders	167,024,237	32.4%	167,024,237	25.0%	167,024,237	1.7%	167,024,237	0.5%
Total	515,661,188	100.0%	668,096,948	100.0%	9,907,553,080	100.0%	35,265,661,188	100.0%

Notes:

(1) Representing the interest held by Mr. Hung Hak Hip, Peter and Ms. Hung Chiu Yee as at the date of the Latest Practicable Date without taking into account Mr. Hung Hak Hip, Peter's deemed interest as a result of the Proposed Acquisition. Save for the deemed interest held by Mr. Hung Hak Hip, Peter as a result of the Proposed Acquisition, the details of which are set out in Appendix IV of this circular, as of the Latest Practicable Date, by virtue of the SFO, Mr. Hung Hak Hip, Peter (being a Director and a member of the Hung Family) is deemed to be interested in:

(a) the disclosed interest in Hungs Family (2009) Limited ("**Hungs Family (2009)**") of 327,034,536 Shares as Mr. Hung Hak Hip, Peter is the sole director and beneficial owner of Hungs Family (2009);

(b) 4,990,883 Shares held through a controlled corporation;

(c) 1,675,974 Shares held through Mr. Hung Hak Hip, Peter's spouse and minor children; and

(d) 2,808,903 Shares beneficially owned by a discretionary trust whose discretionary beneficiaries include certain associates of Mr. Hung Hak Hip, Peter.

As of the Latest Practicable Date, Ms. Hung Chiu Yee, being a Director of the Company and a member of Hung Family, is interested in 2,614,772 Shares, representing 0.51% of the issued share capital of the Company, and Mr. Hung Ming Kei, Marvin, being a member of Hung Family, is interested in 104,163 shares, representing 0.02% of the issued share capital of the Company.

(2) As of the Latest Practicable Date, the following directors are interested in the respective Shares of the Company:

(a) 2,045,565 Shares are directly and beneficially owned by Mr. Wong Yu Hong, Philip, representing 0.40% of the issued share capital of the Company;

(b) 2,045,565 Shares are directly and beneficially owned by Mr. Sze Tsai To, Robert, representing 0.40% of the issued share capital of the Company;

(c) 2,523,165 Shares are directly and beneficially owned by Mr. Cheung Wing Yui, Edward, representing 0.49% of the issued share capital of the Company;

(d) 417,373 Shares are directly and beneficially owned by Mr. Seto Gin Chung, John, representing 0.08% of the issued share capital of the Company; and

(e) 2,376,052 Shares are directly and beneficially owned by Mr. Lee Pak Wing, representing 0.46% of the issued share capital of the Company.

(3) To illustrate the scenario when maximum number of shares could be issued under the Convertible Securities based on per value.

The Proposed Acquisition will not result in any change of control in the Company. The Hung Family intends to maintain as a controlling shareholder in the Company.

5. FINANCIAL EFFECT OF THE PROPOSED ACQUISITION ON THE GROUP

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

As referred to in the interim report of the Group for the six months ended June 30, 2011, the unaudited consolidated net assets of the Group (including non-controlling interests) as of June 30, 2011 were approximately HK$491.2 million, comprising total assets of approximately HK$792.1 million and total liabilities of approximately HK$300.9 million, and the total net profit of the Group for the year ended December 31, 2010 was approximately HK$6.5 million.

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, the unaudited pro forma net assets of the Enlarged Group as at June 30, 2011 would be approximately HK$804.7 million, comprising unaudited pro forma total assets of approximately HK$1,409.6 million and unaudited pro forma total liabilities of approximately HK$604.9 million, and the unaudited pro forma net profit of the Enlarged Group for the year ended December 31, 2010 would be approximately HK$114.8 million.

As stated in the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, the Enlarged Group has unaudited consolidated pro forma cash and cash equivalents of approximately HK$334.5 million as at June 30, 2011. The unaudited pro forma consolidated statement of financial position of the Enlarged Group as at June 30, 2011 was prepared based on (i) the unaudited interim condensed consolidated statement of financial position of the Group as at June 30, 2011, as set out in Appendix I; and (ii) the audited combined statement of financial position of the Target Group as at June 30, 2011 as set out in Appendix II, prepared under HKFRS for the purpose of the Proposed Acquisition, after incorporating the unaudited pro forma adjustments described in the accompanying notes as set out in Appendix III to this circular, as if the Proposed Acquisition were completed on June 30, 2011.

As stated in the section headed "The Acquisition Agreement — (F) Completion", the Seller will be entitled to the dividend declared out of the Target Group's net profit for the year ended December 31, 2011. As stated in note 34 to the Accountants' Report on the Target Group in Appendix II to this circular, on November 30, 2011 and December 20, 2011, the respective Target Group Companies declared interim dividends of HK$144.5 million and HK$72.1 million, respectively. The interim dividends were declared out of the respective Target Group Companies' retained earnings available on October 31, 2011, and are funded by the Target Group's existing cash, which amounted to approximately HK$234.9 million as of June 30, 2011. The declaration and payout of such interim dividends are expected to result in a decrease in the Target Group's total assets, net asset value, cash balance and working capital, and increase its gearing ratio (defined as total debt to total equity), which has not been taken into accounts in the unaudited pro forma financial information of the Enlarged Group as set out in the Appendix III to this circular. Upon Completion, the above financial impact associated with the declaration and payout of the interim dividends will be reflected in the consolidated financial statements of the Company.

As stated in the section headed "Business Overview — Strategies of the Enlarged Group", the Target Group currently expects its future capital expenditure for opening of new Franchise Stores in 2012 to be approximately HK$150 million. The Enlarged Group expects to fund such capital expenditure by the Target Group's internally generated cash during the year 2012 as well as external bank facilities. Under the terms and conditions of the Convertible Securities, the Enlarged Group may, at its sole discretion, elect to defer a distribution. To the extent that there is excess cash available after satisfying the expected capital expenditure and subject to the Enlarged Group's sole discretion after assessing the Enlarged Group's then financial position, the Enlarged Group will elect to pay the distribution for the Convertible Securities.

6. REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

The Group is principally engaged in the purchasing, extracting, refining, blending, bottling, marketing and distribution of edible oils and fats for consumption by households and restaurants and other catering establishments in Hong Kong, Macau, PRC and overseas countries and the provision of ancillary activities. The Group's brands include "Lion & Globe" (獅球嘜) and "Camel" (駱駝嘜), which are well known brands in Hong Kong and PRC.

In order to improve the overall financial performance of the Company, the Directors have continued to review its existing businesses and strived to improve the business operations and financial position of the Company by proactively seeking potential investment opportunities that could diversify its existing business portfolio and broaden its source of income, and enhance value to its Shareholders. The Board believes the Proposed Acquisition is in line with development strategies of the Group and will bring long-term and strategic benefits to the Group and it is expected that the Proposed Acquisition will enable the Group to:

(i) Realize the stated corporate strategy of the Company

In January 2007, HHHL, the predecessor listing vehicle of the Group, decided to pursue a corporate strategy to diversify its business into non-oil business. In order to pave the way for possible future diversification of the Group's businesses, HHHL announced a redomicile proposal ("**Pre-2011 Reorganization**") the effect of which was for the Company (incorporated in the Cayman Islands) to replace HHHL (incorporated in Bermuda) as the listing vehicle of the Group through a court-sanctioned scheme of arrangement. As stated in the announcements by HHHL dated January 31, 2007 and March 13, 2008, and the scheme document issued by HHHL and the Company dated March 14, 2008, the purpose of the Pre-2011 Reorganization was mainly as follows:

(a) the Group's results have been adversely affected by losses incurred by its Oils Business in PRC and, given the prolonged unsatisfactory performance of the Group's businesses, the Directors decided to act more proactively to try to diversify the Group's business to other related sectors such as food and beverage and retail business so as to balance and enhance the overall financial performance of the Group to create value for its Shareholders; and

(b) in order to pursue this diversification strategy, and in anticipation of the acquisition of new businesses, the Directors considered it appropriate to segregate the Oils Business from future new businesses because of the different business models and risk profiles (and associated liabilities) of potential new businesses compared to the Oils Business. The CAGR of the PRC fast food industry from 2011 to 2015 is expected to be 10.7% and is expected to be higher than that of the end market of the Company's existing business - edible oil market, which is expected to have a 7.3% CAGR from 2011 to 2015 according to *Euromonitor*. The incorporation of a new listing vehicle to act as the ultimate holding company of the Group thereby allows HHHL to continue to hold the Oils Business under one strand of subsidiaries under HHHL, and future new businesses to be owned under a separate strand of subsidiaries.

The Proposed Acquisition is part of a broader corporate strategy that was put in place in January 2007. The business of the Target, as described above, is in the food and beverage and retail business and has been in the contemplation of the Company since the conception of the Pre-2011 Reorganization as stated in the Annual Reports

2007-2010 of the Company to develop a more diversified business in the food and beverage and retail business with significant growth potential. The Company currently intends to continue operating the Oils Business and, consistent with the Company's ongoing business strategy, the Company will from time to time review its existing businesses as well as further diversification opportunities. The Company will also continue to review the longer-term operations and prospects of the Oils Business and to continue to explore alternatives for maximizing Shareholders' value.

(ii) Derive additional earnings and cashflow contribution from the Target Group

The Target Group operates the quick service restaurant chain business in the Franchise Regions and generates a significant income stream from its business. Through the Proposed Acquisition, the Company expects to derive additional earnings and cashflow contribution from the Target Group. According to the Accountants' Report on the Target Group, the revenue of the Target Group increased from approximately HK$778.0 million in 2008 to approximately HK$1,234.2 million in 2010, representing a CAGR of approximately 25.9%, while the total net profit of the Target Group increased from approximately HK$61.6 million in 2008 to approximately HK$120.4 million in 2010, representing a CAGR of approximately 39.8%.

Driven by the favorable industry growth dynamics and the Target Group's multiple growth opportunities as elaborated in the sections headed "Competitive Strengths of the Target Group" and "Strategies of the Enlarged Group" under the "Business Overview" section, the Target Group expects the Target Group's profit after tax in 2011 to exceed the maximum distribution amount of HK$121.6 million per annum given that the Target Group's profit after tax for the last twelve months ended June 30, 2011 was HK$134.1 million, which was derived from the Target Group's profit after tax for the year ended December 31, 2010 less profit after tax for the six months ended June 30, 2010, and added with profit after tax for the six months ended June 30, 2011, based on the figures extracted from the Target Group's Accountants' Report included in Appendix II to this circular. In addition, given there is no upfront cash consideration under the Proposed Acquisition and the Group's option to defer distribution of the Convertible Securities at its own discretion, the Group will have significant financial flexibility under the structure of the Proposed Acquisition while enjoying the scale and earnings accretion associated with the Proposed Acquisition. Post-conversion of the Convertible Securities, the Group will no longer be required to pay any distribution relating to the Convertible Securities. Based on the above, the Directors believe that the Company and its shareholders can benefit from the Proposed Acquisition, and as such conclude that the Proposed Acquisition is fair and reasonable and in the interests of the Company and its shareholders as a whole.

(iii) Expand institutional investors' interest in the Company through the acquisition of a growth business to support a market re-rating of the Company

The Shares are currently characterized as having relatively low levels of liquidity and with a small institutional investor base. The Directors believe that the Proposed Acquisition represents a unique opportunity for shareholders and potential investors of the Company to participate in a quick service restaurant chain business in PRC. The Directors further believe that the Proposed Acquisition would support a market re-rating of the Company which would expand institutional investors' interest in the Company.

(iv) Combine capable and experienced leadership and senior management teams

The Company intends to adopt certain changes to the directors and senior management of the Group in order to cater for developments in connection with the Proposed Acquisition. The changes include the appointment of Mr. Hung Ming Kei, Marvin as an executive Director and Chief Executive Officer of the Company and all the Target Group's senior management will become the Group's senior management in order to manage the day to day business of the Enlarged Group after the completion of the Proposed Acquisition. Mr. Hung Ming Kei, Marvin was involved from the beginning of the opening of the first Franchise Store in Beijing, and has been in the PRC fast food industry since 1992. The biographical details of Mr. Hung Ming Kei, Marvin is set out in the paragraph headed "Senior Management" under the section headed "Senior Management and Employees of the Target Group". Furthermore, the Company intends that following the completion of the Proposed Acquisition, all the existing Directors will remain in the Board to oversee the existing business and newly acquired business. With Mr. Hung Ming Kei, Marvin's extensive industry knowledge and experience in the PRC fast food market and international vision, and the management experience of the existing Directors of the Company, the Company believes that such changes will result in a unique mix of PRC and international management qualifications and expertise in the management of the Company. The Proposed Acquisition will allow the Group to absorb a professional team of management in the food and beverage business which will strengthen the capabilities of the Group in the management and operation of its business and will facilitate potential expansion of the Group. The Board may from time to time consider adjusting the composition of the Board and/or senior management to cater for the continuous development of the business of the Group.

7. INCREASE IN AUTHORIZED SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorized share capital of the Company is HK$80,000,000 divided into 800,000,000 Shares of HK$0.10 each. In order to ensure that a sufficient number of unissued Shares is available for the Company to allot and issue to the Seller (or its appointed nominee(s)) the Conversion Shares underlying the Convertible Securities in relation to the Proposed Acquisition, the Board proposed to increase the authorized share capital of the Company from HK$80,000,000 to HK$1,480,000,000, by the creation of an additional 14,000,000,000 unissued Shares of HK$0.10 each, which will rank *pari passu* with all the existing Shares when issued. An ordinary resolution to this effect will be proposed at the EGM for consideration by the Shareholders.

8. APPOINTMENT OF A NEW DIRECTOR AND CHIEF EXECUTIVE OFFICER

Upon Completion, the Board intends to appoint Mr. Hung Ming Kei, Marvin as an executive Director and Chief Executive Officer of the Company. It is the Company's intention that upon Completion, Mr. Hung Ming Kei, Marvin will be the Chief Executive Officer with overall responsibility for both businesses. The current management team for the Oils Business is expected to remain unchanged. As the Oils Business is stable and the Oils Business will be a relatively small division within the Company after Completion, the current management team for the Oils Business under the overall supervision and responsibility of Mr. Hung Ming Kei, Marvin is expected to be sufficient to manage the Oils Business.

The appointment of Mr. Hung Ming Kei, Marvin as an executive Director upon Completion will be subject to retirement and re-election at the next following annual general meeting of the Company. Upon re-election, the length of the service of Mr. Hung Ming Kei, Marvin's service contract will not exceed three years.

The biographical details of Mr. Hung Ming Kei, Marvin are set out in the sub-section headed "Senior Management and Employees of the Target Group" of this circular.

9. CONTINUING CONNECTED TRANSACTIONS ARISING FROM THE PROPOSED ACQUISITION

As soon as the Target becomes a wholly-owned subsidiary of the Company, the continuing transactions between the Target and the Seller and their respective associates will become continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

There have been continuing transactions between the Target Group and the Seller Group Companies, including sharing of administrative services, provision of services, licensing of intellectual property rights and leasing of properties. Upon completion of the Proposed Acquisition, such continuing transactions will constitute continuing connected transactions and will be subject to the reporting, annual review and disclosure requirements under Chapter 14A of the Listing Rules. The Company currently expects that the transaction amounts for the sharing of administrative services (including, among others, provision of general administrative services by the Target Group to the Seller Group Companies) between the Target Group and the Seller Group Companies will be, on an annual basis, approximately RMB1.1 million (approximately HK$1.3 million) which will be more than 0.1% but less than 2.5% of the relevant percentage ratios (other than the profits ratio) under Chapter 14A of the Listing Rules. The relevant transaction amounts is calculated based on an estimate of (i) actual time spent by each department for providing services to the Seller Group Companies by the Target Group and (ii) the rent, property management fee and utilities for the floor area occupied by the relevant staff in delivering the relevant administrative service to the Seller Group Companies. The Seller Group

Companies will pay for the shared services on a flat monthly charge basis. The Target Group and the Seller Group Companies will enter into a framework agreement with a term of not exceeding three years to govern such continuing connected transactions before the completion of the Proposed Acquisition. Upon completion of the Proposed Acquisition, such transactions will be subject to the disclosure and announcement requirements but exempt from Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will make an announcement regarding such continuing connected transactions immediately after the completion of the Proposed Acquisition in accordance with the relevant requirements under Chapter 14A of the Listing Rules. Other than the sharing of the administrative services, the Company currently expects that the transaction amounts for other continuing connected transactions per annum will fall under the *de minimus* threshold under Chapter 14A of the Listing Rules. The Company will comply with the reporting, annual review, disclosure and (if applicable) the independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules as and when necessary and appropriate.

10. LISTING RULES IMPLICATIONS

As certain of the percentage ratios for the Proposed Acquisition calculated in accordance with Rule 14.07 of the Listing Rules are over 100%, the Proposed Acquisition constitutes a very substantial acquisition under Chapter 14 of the Listing Rules. In addition, the Proposed Acquisition constitutes a connected transaction under Chapter 14A of the Listing Rules as the Target is an associate (as defined in Rule 1.01 of the Listing Rules) of the Hung Family (a substantial shareholder of the Company). Accordingly, the Proposed Acquisition is subject to requirements for reporting, announcement and approval by the Independent Shareholders at the EGM by way of poll under the Listing Rules.

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

11. INFORMATION ON THE TARGET GROUP

11.1 Risk Factors

You should carefully consider all of the information in this circular, including the risks and uncertainties described below. You should pay particular attention to the fact that following Completion, a substantial part of the Target Group's business will be located in China, which will be governed by a legal and regulatory environment that may differ from that which prevails in Hong Kong. The Target Group's business, financial condition or results of operations could be materially and adversely affected by any of these risks. The trading price of the Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO THE TARGET GROUP'S BUSINESS

The Target Group is governed by the terms of the franchise agreements with the Franchisors.

The Target Group's Franchise Business in PRC is subject to the terms of the franchise agreements with the Franchisors. The Target Group has secured franchises for the Franchise Regions with remaining terms (including automatically renewable terms under the relevant franchise agreements) of no less than approximately 20 years in general.

The franchise agreements may be terminated upon certain termination events under the franchise agreements including insolvency, violation of any law, regulation or rule in relation to the operation and management of stores in the Franchise Regions or material breach of the franchise agreements by both parties. There is no assurance that the Target Group can renew the franchise agreements on comparable terms. In the event that any or all of the franchise agreements are terminated or that the Target Group fails to renew such franchise agreements, the Target Group will be unable to continue its Franchise Business in PRC. This will have a material adverse effect on the Target Group's profitability and its ability to continue carrying on its business in the present form.

In addition, the Target Group is restricted to operate the Franchise Stores in the Franchise Regions under the terms of the franchise agreements. These restrictions may limit the Target Group's ability to expand to other cities in PRC with respect to the Franchise Business, which limits the Target Group to generate further revenue and may adversely affect its expansion plans and its business.

The Target Group is reliant on the Franchisors' good business standing.

The Target Group's Franchise Business is dependent on the good business standing of the Franchisors and their respective brand names. In the event that the goodwill of the Franchisors or their respective brand names are adversely affected due to factors such as: (1) any business disruption that the Franchisors may encounter; (2) a failure by either Franchisor to promote its respective brand name or restaurant concept worldwide; (3) the inability or failure of either Franchisor to support any of its franchisees, including the Target Group; (4) or the failure of either Franchisor to successfully operate its business, the Target Group's standing in the food and beverages industry may be damaged considerably and its business will be materially and adversely affected.

The Target Group depends on the cooperation of other independent franchisees of its Franchisors in upholding the brand names and reputations.

Besides the franchise agreements with the Target Group, the Franchisors have entered into franchise agreements with other independent third parties, over whom the Target Group has no control of, both in PRC and in other parts of the world outside the Franchise Regions for the establishment of restaurants carrying the brand names.

According to *Euromonitor*, as at December 31, 2010, apart from the Target Group, there are three franchisees operating the Yoshinoya franchise business in other parts of PRC outside the Franchise Regions, and there are two franchisees operating the Dairy Queen franchise business in other parts of PRC outside the Franchise Regions. Although the Franchisors employ high standards in selecting the franchisees, if the trademarks are misused by any of the other independent franchisees of its Franchisors, there may be an adverse impact on the business reputation and brand image of the Target Group.

The availability, quality and price fluctuations of food ingredients will affect the Target Group's business and financial performance.

The Target Group's Franchise Business is highly dependent on a sufficient supply of food ingredients that meet its quality requirements. The sufficiency in the supply of food ingredients is dependent on many factors, including the occurrence of diseases, droughts, floods, earthquakes or other disruptions on a significant scale. A material shortage in the supply of its food ingredients will affect the Target Group's preparation of its food products as well as the operation of its Franchise Business. This may in turn have an adverse effect on its business and results of operations.

Fluctuations in the supply of food ingredients will in turn further affect the market price of these food ingredients since their market price is determined principally by market supply and demand. The market price of food ingredients may vary from season to season depending on agricultural products harvests or the occurrence of any natural disasters. A significant increase in the market price of food ingredients will have an adverse effect on the Target Group's profit margins and financial results if it is unable to pass such increase in the price of food ingredients to its customers via adjustment of sales prices.

All food ingredients of the Target Group are procured from third party suppliers. If the suppliers, owing to whatever reasons, are not able to continue supplying the Target Group with an adequate amount of food ingredients to satisfy its present and future needs, and/or are not able to supply it with food ingredients which meet its stringent quality requirements, there would be interruptions to or a decline in the amount or quality of its food ingredients which in turn could materially disrupt and adversely affect the Target Group's business.

The Target Group relies on PRC suppliers to supply it with food ingredients.

The Target Group relies on various PRC regional suppliers to supply it with food ingredients. In the event that there is any outbreak of large-scale food-borne diseases in PRC, the Target Group may not be able to locate other suitable suppliers immediately in PRC for substitution, which may have an adverse effect on the Target Group's business and results of operations.

The Target Group's results of operations may fluctuate significantly due to seasonality.

Outdoor food service consumption is generally less popular in colder climates and accordingly, the Target Group's sales tend to be lower during the winter months of each year. The geographical locations of its Franchise Regions are more susceptible to cold weather than its competitors. As a result, the Target Group's results of operations may fluctuate significantly from season to season and comparison of different seasons may not be meaningful. Hence, the Target Group's results for a given fiscal period are not necessarily indicative of results to be expected for any other fiscal period. See "Financial Information and Management Discussion and Analysis of the Target Group — Significant Factors Affecting the Target Group's Results of Operations — Seasonality."

Instances of food contamination could materially harm the Target Group's reputation and negatively impact its business.

The Target Group's business is susceptible to the risk of food contamination. It cannot guarantee that its internal controls and training will be fully effective in preventing all food contamination. The Target Group also cannot guarantee that its procurement and quality control system can mitigate the risk of food contamination incidents which could be caused by third party food suppliers outside of the Target Group's control and the risk of multiple locations being affected rather than a single restaurant. Reports in the media of one or more instances of food contamination in the Target Group or its competitors' restaurants could negatively affect the Target Group's sales, force the closure of some of its restaurants and conceivably have a large impact if highly publicized. This risk exists even if it was later determined that the contamination had been wrongly attributed to the Target Group's restaurant or wholesale food operations. A decrease in customer traffic as a result of these concerns or negative publicity could materially harm the Target Group's business results and financial condition.

The business of the Target Group is dependent on prompt delivery and quality transportation of its food products and raw materials.

Disruptions such as adverse weather conditions, natural disasters and labor strikes could lead to delayed or lost deliveries, and may result in the loss of revenue for late delivery. There may also be instances where the conditions of fresh, chilled or frozen food products, being perishable goods, may deteriorate due to delivery delays, malfunctioning of refrigeration facilities or poor handling during transportation from the distribution centers to the Franchise Stores by the logistics department or from the raw material suppliers to the distribution centers. This may result in a failure on the Target Group to provide quality food and services to customers, thereby damaging the Target Group's reputation.

The Target Group derives a majority of its revenue from the Beijing market, so any adverse change in the market in Beijing may adversely affect its results of operations.

For the three years ended December 31, 2010 and the six months ended June 30, 2011, the Target Group's sales in Beijing accounted for a major part of its total turnover. The Target Group's directors anticipate that income derived from its sales in Beijing will continue to be its principal source of income in the near future. Any uncertainty resulting from the local economy, spending power of the population and political and social conditions in Beijing may adversely affect the Target Group's business in Beijing.

Current restaurant locations may become unattractive, and attractive new locations may not be available at a commercially reasonable price, if at all.

The success of any restaurant depends in substantial part on its location. There is no assurance that the Target Group's current restaurant locations will continue to be attractive as demographic patterns of the surrounding environment may decline or otherwise change in the future, resulting in reduced sales at these locations. If the Target Group cannot obtain desirable restaurant locations at commercially reasonable prices, its ability to implement its growth strategy will be adversely affected.

The Target Group's restaurants are susceptible to rental fluctuations and may also be affected by any unexpected land acquisitions, building closures or demolitions.

As the Target Group operates most of its chain restaurants on leased properties, it has a significant exposure to the retail rental market. For each of the three financial years ended December 31, 2010 and six months ended June 30, 2011, the Target Group's stores and distribution centers rental expenses amounted to approximately HK$96.0 million, HK$123.4 million, HK$160.2 million and HK$95.0 million respectively, representing approximately 12.3%, 12.9%, 13.0% and 12.8% of the Target Group's total revenue during the respective periods. Since rental expenses represent a relatively significant portion of the total operating expenses of the Target Group, the Target Group's profitability may be adversely affected by any substantial increase in the rental expenses of any of its chain restaurant premises. In particular, rapid rental increases resulting from an upturn of the rental market in PRC will in turn increase the Target Group's rental expenses.

The majority of the Target Group's tenancy agreements for PRC properties have a tenure of between five to ten years, and may contain options to extend for another one to five years. Hence, each of the properties experiences lease cycles within which a number of tenancy agreements expire each year. Upon expiry of the lease of a restaurant, the landlord of the property will have the right to review and alter the terms and conditions of the lease agreements and the Target Group will have to negotiate the terms of renewal with the relevant landlord. There is no assurance that the Target Group would be able to renew the relevant lease agreement on terms acceptable to it or to lease premises at desired locations on comparable and favorable terms, particularly in respect of rental charges. In the event that the Target Group needs to close down a restaurant at the end of a lease, its services may be disrupted and it may incur extra costs to relocate. The Target Group's business operations and financial performance may be adversely affected.

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

Disruptions to any of the Target Group's Franchise Stores and/or distribution centers will affect its financial conditions and results of operations.

The Target Group's business will be affected by disruptions to any of its Franchise Stores and/or distribution centers. For instance, the occurrence of a fire, machine down-time, power failure, power shortages, disruptions to gas, power or water supplies, explosions of its facilities or injuries to its staff may result in the suspension or delay in its business or production process. In addition, the Target Group's business may also be interrupted or otherwise affected by labor strikes or natural disasters, such as floods, droughts and earthquakes, which could cause damage to its chain restaurants or distribution centers. Any major disruption to the Target Group's restaurants or distribution centers could have a material adverse effect on its business operations, financial conditions and results of operations.

The Target Group may be forced to cease use of certain properties and relocate to other locations.

In respect of certain distribution centers and warehouses that are currently leased from third parties by the Target Group, due to the reasons that (i) such properties are located on lands that are collective land, allocated land or not for construction usage; and/or (ii) the relevant lessors do not have adequate rights and authorizations to lease such properties to the Target Group, the Target Group may (i) be subject to an administrative fine of RMB30 per square meter for illegal use of lands; and/or (ii) be forced by the relevant governmental authorities or the rightful owner of the relevant properties (as applicable) to cease to use such properties and relocate to other locations in the future, which may incur costs and cause disruption to its business operations.

In respect of the two headquarters offices in Beijing that are currently leased from third parties by the Target Group, due to the reasons that the relevant lessors do not have adequate rights and authorizations to lease such properties to the Target Group, the Target Group may be forced by the rightful owner to cease to use such properties and relocate to other locations in the future, which may incur costs and cause disruption to its business operations.

The total costs to be incurred for potential relocation of all the distribution centers in question and the two headquarters offices in Beijing are up to approximately HK$10 million, which include all the costs for renovation and relocation, and all additional rent estimated to be incurred.

The Target Group's restaurant operations are service-oriented and therefore its employees are important to the Target Group.

The Target Group's continued success depends in part upon its ability to attract, motivate and retain a sufficient number of qualified and skilled employees for its chain restaurant operations, including restaurant managers, cooks, kitchen staff and supporting staff at the distribution centers. Any failure to recruit skilled personnel and to retain key staff may adversely affect the Target Group's operations and expansion plans. Any material increases in employee turnover rates in the Target Group's existing chain restaurants could have a material adverse effect on its business operations, financial condition, operating results or cash flow. Additionally, competition for acquiring qualified employees would require the Target Group to pay higher wages to attract and retain sufficient employees, which could result in higher labor costs and lower profits.

The Target Group's employees may also suffer from injuries during the course of their employment that call for compensation which the Target Group's insurance may not adequately cover. In such circumstances, the Target Group may be required to compensate its employees directly. The Target Group's liabilities in respect of such claims may affect it financially.

The Target Group's business is reliant on key personnel.

The Target Group's success is attributable to the expertise and experience of its key personnel, as well as other members of senior management of the Target Group. Its continued success is dependent on its ability to retain the services of its senior management as they are expected to play an important role in guiding the Target Group's business strategy and future plans. The loss of the services of any of these key personnel without suitable and timely replacements, or the inability to attract or retain qualified personnel, may disrupt or affect the Target Group's business operations.

Wrongdoings by the employees of the Target Group and/or outsiders may harm its business.

The cash sales in the Target Group's Franchise Stores and food products in its Franchise Stores and distribution centers are handled by its authorized staff at store level. The Target Group may be susceptible to pilferage, theft, or even the deliberate contamination of its food products by its staff and/or its customers. These wrongdoings may harm the Target Group's operating results and profits. Please refer to the paragraph headed "Cash Management System" in the section headed "Business Overview" of this circular for further information on the Target Group's cash management system.

If the Target Group fails to continue to improve its infrastructure, management or operational systems or to obtain financial resources to support its expansion, the Target Group may be unable to achieve its expansion objectives and its business and operations may be harmed.

The Target Group faces the risk that its existing senior personnel, operational systems and tools, financial controls, information systems and other systems and procedures may be inadequate to support its planned expansion. The Target Group may not be able to respond on a timely basis to the demands that its planned expansion will impose on its infrastructure, management, operational systems and financial resources. The Target Group's expansion plans may require significant amounts of management time and financial resources and divert such resources from its existing business and operations. If the Target Group fails to continue to improve its infrastructure, management or operational systems or to obtain financial resources required to support its planned expansion, it may be unable to achieve its expansion objectives and its business and operations may be harmed.

The Target Group relies on computer software and hardware systems which may be susceptible to failure.

The Target Group is dependent on its computer software and hardware management information systems to monitor the daily operations of its Franchise Stores and distribution centers, and to maintain accurate up-to-date financial data for the compilation of management information. Any system failures in these processes causing interruptions to the input, retrieval or transmission of data could disrupt the Target Group's service time and consequently its business operations.

The public liability insurance which the Target Group has purchased may be inadequate and the Target Group may be affected by customer complaints, negative publicity or product liability claims.

Like all operators in service-oriented industries, the Target Group is subject to customer complaints. In particular, being in the food and beverage industry, the Target Group faces an inherent risk of food contamination and product liability claims. Consumers of its food products may complain about the quality of its food products or may allege illness after consuming its food products. Customers may also allege the loss of personal property in its restaurants. The Target Group may also face complaints from unsatisfied customers who are unhappy with the standard of service offered by its restaurants. Any complaints, regardless of their nature and validity, may affect the Target Group's reputation, thereby adversely affecting the results of its operations. The Target Group may also have to incur additional costs in placating any customers or salvaging its reputation.

In the event that the Target Group's insurance coverage is inadequate, it may be required to compensate its customers for any illness or injuries suffered or any damage to personal property if it is found to be at fault. If any complaint escalates to become a claim against the Target Group, even where unsuccessful, it would be required to divert resources to address the claim. The liabilities in respect of such claims could adversely affect the financial position and results of operations of the Target Group.

The Target Group's business may also be adversely affected by any negative publicity resulting from the publication of industry findings or research reports, health concerns regarding any of its food ingredients, and any allegations of poor standards of hygiene or cleanliness. Any such complaints and negative publicity, regardless of their validity, may reduce the number of consumers and hence, transaction volume at the Target Group's chain restaurants. Depending on the severity of such complaints, the Target Group may even be ordered to suspend or cease all or part of its business operations by the local health authorities. The results of its operations may therefore be materially affected.

The Target Group's intellectual property rights may be infringed upon or it may inadvertently infringe third party rights.

The Franchisors have registered their trademarks in the Franchise Regions and have also licensed to the Target Group the right to use these trademarks in the Franchise Regions. In order to protect its intellectual property rights, it relies on relevant laws for such protection. Notwithstanding the foregoing, it may be possible for a third party to unlawfully infringe its intellectual property rights, which may adversely affect the business and profitability of the Target Group.

Besides the brand name, the Franchise Business or the products that the Target Group offer may also be susceptible to imitation from competitors of the Target Group. The recipes, production processes, know-how and food packaging are essential to the appeal of the rice bowl and ice-cream products and the branding. If the competitors are able to successfully imitate the chain restaurant concepts, menus, recipes, production processes, know-how or product packaging, and offer more price-for-value and more appealing and popular rice bowl and ice-cream products and other similar dishes, the market share of the Target Group may decrease, thereby adversely affecting its business. Conversely, if the competitors offer dishes with inferior quality causing consumers to lose interest in the type of food that the Target Group offers or which cause harm to consumers, the goodwill generated by the Franchise Business may be eroded and the Target Group's business and financial position may be adversely affected. The Target Group may also incur additional costs in instituting legal proceedings to defend its intellectual property rights, thereby adversely affecting its financial performance.

Adverse changes in political relations between PRC and other countries as well as domestic social conditions in PRC may affect the Target Group's business.

The Target Group's business is subject to the prevailing political and social conditions in PRC, where all of its restaurants are located. Any social unrest may adversely affect its business operations. The Target Group's business operations may also be affected by the diplomatic relations between PRC and another country and subsequent developments in government policies by the PRC government. For instance, in April 2005, when diplomatic relations between Japan and PRC were strained, there were demonstrations organized in several cities across China in protest against the Japanese. Future displays of negative sentiments in PRC against another foreign country may adversely affect consumer preferences, cause damage to the Target Group's properties, or disruptions to its business and its distribution channels, any of which could have a material adverse impact on the Target Group's overall operations and financial results. For the Track Record Period, the Target Group has not been affected by any such incidents.

The Target Group is subject to government laws and regulations which may adversely affect its business, operations and results of operations.

The Target Group is required to comply with laws and regulations in the jurisdiction where it operates and to maintain various licenses and permits in order to operate its business. For example, in PRC, the Target Group is required to comply with applicable hygiene and food safety standards in its restaurant operations and food preparation process, and its premises and vehicles are subject to regular inspections by the regulatory authorities. Any material non-compliance with applicable laws or regulations, or the loss of or failure to renew the Target Group's licenses and permits, could result in the Target Group temporarily or permanently suspending some or all of its restaurant operations or business activities, which could disrupt the Target Group's operations and adversely affect its business.

The legal and regulatory environment affecting consumer food services operators in PRC where the Target Group operates expose it to complex compliance, litigation and similar risks that may materially affect its operations and results. In PRC, the Target Group is subject to increasing regulation. Among the more important regulatory risks the Target Group faces are the following:

- the Target Group's ability to manage the cost, compliance and other risks associated with the sometimes conflicting regulations it faces;

- the impact of new, potential or changing regulation that affects or restricts elements of the Target Group's business, particularly laws and regulations relating to food and fire safety, hygiene and sanitation standards, advertising, nutritional content, product labeling or labor and employment matters;

- difficulties or delays in obtaining required licenses or approvals to open or operate restaurants;

- differences in practices within the consumer food services industry with respect to testing and disclosure, ordinary variations in food preparation among the Target Group's restaurants, and reliance on the accuracy and appropriateness of information obtained from third party suppliers;

- the impact of litigation trends in certain markets, including class actions involving consumers and shareholders;

- government-mandated closure of the operations of the Target Group or its vendors for policy or other reasons beyond its control; and
- the costs of compliance with privacy, consumer protection and other laws.

There can be no assurance that the legal and regulatory environment under which the Target Group operates will not become more stringent or complex in the future. The Target Group may have to incur more costs to comply with any changing laws and regulations in relation to the consumer food services industry in PRC where the Target Group has operations. In addition, should the Target Group fail to comply with any applicable laws or regulations, or if relevant government authorities decide that the Target Group's operations do not meet applicable standards, its restaurants in these markets may be required to suspend or even cease operations, and its business, results of operations and reputation could be adversely affected.

Uncertainties associated with the expansion of the Target Group's business.

The successful implementation of the Target Group's expansion strategy may be influenced by various factors such as the ability to identify suitable locations on acceptable terms, the obtaining of governmental and other third-party consents, permits and licenses needed to operate those new Franchise Stores, the ability to use the Target Group's management and financial resources efficiently, and the hiring, training and retention of skilled personnel. There is no assurance that the operational performance of any of the Target Group's new Franchise Stores in the Franchise Regions will work according to the plans and satisfy the expectations of the Target Group, or the Target Group would be able to successfully replicate in the new Franchise Stores the present business strategy and model which it has employed to date. In the event that the Target Group is unable to find any suitable location for new Franchise Stores or any of the new Franchise Stores perform below the Target Group's expectations, the overall operational and financial results could be materially affected.

The success and rate of expansion of the Franchise Stores is also dependent on customer satisfaction and the marketing efforts of the Target Group. Demand for the Target Group's products from consumers and the Franchise Stores expansion prospects depend on the growth and penetration rate of the Franchise Stores in the Franchise Regions. In order to grow at a faster pace, the Target Group implements a series of marketing initiatives to create public awareness of the brands and products of the Franchise Business, while at the same time ensuring customer satisfaction. In the event that any of the marketing initiatives are met with unsatisfactory response, or the service or product standards fall and the customers no longer continue to patronise the Target Group's products, the business and profits of the Target Group will be adversely affected.

RISKS RELATING TO THE INDUSTRY

The Target Group's business may be adversely affected by reductions in discretionary consumer spending as a result of downturns in the economy.

The Target Group's business may be adversely affected by reductions in discretionary consumer spending as a result of downturns in the economy. The Target Group has observed that consumer habits are particularly sensitive to the state of the economy. Factors such as the deterioration of the economy, decrease in disposable consumer income, fear of a recession and changes in consumer confidence may affect consumer preferences and spending. In the event of an economic downturn, consumers will tend to become more budget conscious and sensitive to the amount they are willing to spend on food. As all of its businesses are in PRC, the Target Group is heavily dependent on the PRC economy. If consumer demand for the Target Group's food is reduced or if there occurs any significant decline in the PRC economy, and the Target Group is unable to divert its business to markets outside PRC, its revenue, profitability and business prospects will be materially affected.

The Target Group may be unable to anticipate changes in consumer preferences which may result in decrease in demand for certain of its food products.

The Target Group's continued success in the PRC food and beverage industry is dependent to a large extent on its ability to anticipate and develop recipes that appeal to the changing tastes, dietary habits and preferences of its customers. If the Target Group is not able to anticipate and identify new consumer trends and develop new recipes accordingly, the demand for some of its food products may decline and its operating results may be adversely affected. In addition, the Target Group may incur significant costs relating to the development and marketing of new recipes, or improving or altering its existing recipes in response to what it perceives to be a consumer preference or demand. Such development or marketing efforts may not necessarily result in the level of market acceptance, volume of sales or profitability as anticipated by it.

The Target Group's business is affected by intense competition.

Competition in the food and beverage industry is highly intense. The Target Group faces intense competition from a large and diverse group of restaurant chains and individual restaurant operators (in particular, local and international QSR companies), and food manufacturers who are engaged in the production of similar products as the Target Group's. The Target Group competes on the basis of taste, quality, price of food offered, customer service, ambience, and the overall dining experience. The Target Group's business will be adversely affected if it is unable to compete effectively in the QSR and food service markets. Some of its competitors have longer operating histories, larger customer bases, better brand or name recognition, and better financial, marketing and public relations resources than the Target Group. As the Target Group competes with other competitors as well as new market entrants, its business and results of operations may be adversely affected in the event that the Target Group is not competitive in terms of its pricing, or if there is deterioration in the quality of its food products or its level of service.

As the Target Group works toward expanding its store network, it may also have to compete with other retailers for the acquisition of desired shop spaces or experienced employees. The competition for desired locations may increase the bargaining power of landlords seeking to lease out their properties. Consequently, the Target Group may not be able to rent these desired locations on terms which are comparable to the terms of its existing leases, or its competitors may offer better terms than the Target Group. The Target Group may also have to offer experienced management staff higher wages in order to recruit or retain them. Such instances will increase the Target Group's operating costs, thereby affecting its financial performance.

The Target Group's business may be affected by the outbreak of food-related diseases or contagious diseases.

The main raw materials for the Target Group's food products are beef, chicken, rice, vegetables and dairy products. Any outbreak of diseases in its food ingredients which renders the Target Group's food products unsafe for human consumption or decreases public confidence in the Target Group's food products may lead to a loss in consumer confidence and reduction in consumption of the particular food product concerned. In particular, as the main ingredient is beef, chicken and rice in its rice bowl and dairy product for ice-cream, the Target Group is especially dependent on beef, chicken, rice and dairy products as raw materials and any related diseases would affect its business operations. In addition, the Target Group may also have to look for alternative sources of food supply which may be more costly. Such events may have a material adverse impact on the Target Group's business.

If there is a resurgence of the outbreak of SARS, Avian Flu ("**Bird Flu**") or any contagious diseases in the communities in which the Target Group operates, consumers may be reluctant to consume foods prepared by other parties or to dine out in order to minimize human interaction. As such, the Target Group's business operations and financial performance may be adversely affected during such outbreak. The time required to recover the normal business during the post-outbreak period may not be immediate as it may take time for consumer confidence to recover.

RISKS RELATING TO PRC

Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of PRC, which could materially and adversely affect the Target Group's business and results of operations.

All of the Target Group's business operations are conducted in PRC and all of its sales are made in PRC. Accordingly, the Target Group's business, financial condition, results of operations and prospects are significantly affected by economic, political and legal developments in PRC. The PRC economy differs from the economies of most developed countries in many respects, including the degree of government involvement, the level of development, the growth rate, the control of foreign exchange, access to financing, and the allocation of resources. Restaurant dining is discretionary for customers and tends to be higher during periods in which favorable economic conditions prevail. Customers' tendency to become more cost-conscious as a result of an economic slowdown or decreases in disposable income may reduce the amount of purchase by the Target Group's customers or average revenue per customer, which may adversely affect its revenue.

While the PRC economy has grown rapidly in the past 30 years, the growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may also have a negative effect on the Target Group. For example, the Target Group's financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to it.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in PRC is still owned by the PRC government. The PRC government also exercises significant control over PRC's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government implemented a number of measures, such as raising bank reserves against deposit rates to placing additional limitations on the ability of commercial banks to provide loans and raising interest rates to curb the growth rate of specific segments of PRC's economy. These actions may significantly curb the growth of PRC economy, hence impacting the results of the Target Group's operations and its future expansion. Additionally, future actions and policies of the PRC government could materially affect its liquidity and access to capital and its ability to operate its business.

Restrictions on currency exchange may limit the Target Group's ability to receive and use its revenues effectively.

The Target Group's revenues and expenses are principally denominated in Renminbi. Under PRC law, the Renminbi is currently convertible under the "current account," which includes dividends and trade and service-related foreign exchange transactions. Currently, the PRC Operating Companies may purchase foreign currencies for settlement of current account transactions, including payments of dividends to the Target, without the approval of the State Administration of Foreign Exchange, by complying with certain procedural requirements. However, the relevant PRC government authorities may limit or eliminate its ability to purchase foreign currencies in the future. Since a significant amount of the Target Group's future revenues will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit its ability to utilize revenues generated in Renminbi to fund its business activities outside PRC that are denominated in foreign currencies. Foreign exchange transactions by the PRC Operating Companies under the capital account continue to be subject to tight foreign exchange controls and require the approval of or need to register with the PRC government authorities, including State Administrative Foreign Exchange ("**SAFE**"). In particular, if the PRC Operating Companies borrow foreign currency through loans from the Target Group or other foreign lenders, these loans must be registered with SAFE, and if the Target Group finance the PRC Operating Companies by means of additional capital contributions, these capital contributions must be approved by certain government authorities, including the National Development and Reform Commission (where applicable), the Ministry of Commerce or their respective local agencies. These limitations could affect the ability of the PRC Operating Companies to obtain foreign exchange through debt or equity financing.

Uncertainties with respect to the PRC legal system could limit the legal protection available to the Group and the Target Group.

The Target Group conducts its business principally through its PRC Operating Companies, all of which are wholly foreign-owned enterprises in PRC. The PRC Operating Companies are generally subject to laws and regulations applicable to foreign investment in PRC and, in particular, laws applicable to foreign-invested enterprises. PRC legal system is based on written statutes, and prior court decisions may be cited for reference but have limited precedential value. Since 1979, a series of new PRC laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in PRC. However, since these laws and regulations are relatively new and PRC legal system continues to evolve rapidly, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to the Group and the Target Group. In addition, PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms and it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection than in more developed legal systems. These uncertainties may impede the Target Group's ability to enforce the contracts it has entered into with its business partners and suppliers. Such uncertainties, including the potential inability to enforce the Target Group's contracts, could materially and adversely affect its business and operations.

The Target Group is subject to laws governing the relationship with its employees.

The Target Group is subject to laws governing its relationship with the employees including minimum wage requirements, overtime pay, working conditions and work permit requirements. Compliance with the relevant laws and regulations may increase the operating costs or affect the business operation of the Target Group.

Under the PRC social security regulations, the Target Group is required to provide social insurance to its employees, namely insurances for retirement, unemployment, maternity, medical and work-related injuries suffered by the employees (details of which vary with the legal requirements of different regions). An employer is obligated to pay its social security premiums and to withhold and pay its employees' portions to the relevant administrative authorities of the PRC Ministry of Labor and Social Security. Any employer who fails to pay its social insurance premiums or withhold payment of the employee's portion may be ordered by the PRC Ministry of Labor and Social Security or the PRC Tax Bureau to make such payments within a stipulated time limit, and may be liable to pay a late payment fine of 0.05% per day computed from the date when the amount becomes overdue; if the employer fails to make payment within such prescribed period, it will be subject to a fine ranging from 100% to 300% of the overdue amount. If an employer fails to make social insurance registration, the PRC social insurance administrative authority will order it to make correction within a prescribed period; failure to do so will result in a fine ranging from 100% to 300% of the overdue amount, and the responsible person will be imposed of a fine with the amount ranging from RMB500 to RMB3,000.

The Target Group may encounter difficulties in the enforcement of rights.

The Target Group's assets are principally located within PRC. Therefore, it may not be possible for claimants to enforce against it inside PRC any judgments obtained from non-PRC courts. PRC does not have treaties or arrangements providing for the recognition and enforcement of judgments of the courts of certain countries, such as the United Kingdom and the United States, and therefore recognition and enforcement in PRC of judgments obtained in such jurisdictions may be impossible. PRC is a signatory of the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**") which permits enforcement in PRC of awards of arbitral bodies located in other New York Convention signatory countries, subject to certain exceptions. Even in cases where enforcement is, in principle, provided for by the New York Convention, practical difficulties are sometimes encountered. There is an arrangement for enforcement of Hong Kong arbitral awards in China on similar terms to the New York Convention.

The Target Group may encounter difficulties in the enforcement of rights against the Franchisors.

The Franchisors are Yoshinoya Japan, a company incorporated in Japan and Dairy Queen US, a company incorporated in the US. Although the franchise agreements are governed by Hong Kong law, the Franchisors may not have any assets in Hong Kong. A Hong Kong judgment is not directly enforceable in US and Japan, but is only enforceable at common law. In other words, in those countries it is necessary to commence fresh proceedings to pursue the Hong Kong judgment and to obtain and enforce a judgment of the Courts of that country. Therefore, the Target Group may encounter difficulties in the enforcement of rights against the Franchisors.

The Target is a holding company and relies on dividend payments from its operating subsidiaries in PRC.

The Target is a holding company and conducts all of its business through its operating subsidiaries in PRC, i.e., the PRC Operating Companies. As a result, the Target's ability to pay dividends depends on dividends and other distributions received from its operating subsidiaries in PRC. If its operating subsidiaries incur debt or losses, it may impair their ability to pay dividends or other distributions to the Target, which could adversely affect its ability to pay dividends.

Under the current PRC laws, dividends of PRC companies can be paid only out of the after-tax profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions. Furthermore, PRC law requires foreign invested enterprises, such as the PRC Operating Companies, to set aside part of their net profit as statutory reserves. The PRC Operating Companies are required to set aside each year at least 10% of its after-tax profits for such year, as reported in its PRC statutory financial statements, to the statutory surplus reserve of such PRC subsidiaries. Such reserve may not be discontinued until the accumulated amount has reached 50% of the registered capital of the PRC Operating Companies. These statutory reserves are not available for distribution to the Target, except in liquidation. The calculation of distributable profits under the PRC Accounting Standards and Regulations differs in certain aspects from the calculation under HKFRS. As a result, the PRC Operating Companies may not be able to pay any dividend in a given year to the Target if they do not have distributable profits as determined under the PRC Accounting Standards and Regulations, even if it has profits for that year as determined under HKFRS.

Limitations on the ability of the PRC Operating Companies to remit their entire after-tax profits to the Target in the form of dividends or other distributions could adversely affect the Target Group's ability to grow, make investments that could be beneficial to its business, pay dividends and otherwise fund and conduct its business. There is no assurance that the PRC Operating Companies will generate sufficient earnings and cash flows to pay dividends or otherwise distribute sufficient funds to the Target to enable it to pay dividends.

In addition, restrictive covenants in bank credit facilities, joint venture agreements or other arrangements that the Target Group enter into in the future may also restrict the ability of its operating subsidiaries to pay dividends or make distributions to the Target. These restrictions could reduce the amount of dividends or other distributions the Target receives from its operating subsidiaries, which in turn would restrict the Target Group's ability to pay dividends.

OTHER RISKS

Statistics contained in this circular are derived from official governmental sources and may not be reliable.

Facts and statistics relating to the QSR and/or food and beverage industry in PRC have been derived from official publications generally believed to be reliable. While reasonable care has been taken to ensure that the facts and statistics are accurately reproduced from such sources, they have not been independently verified by the Group and therefore the Directors make no representation as to the correctness or accuracy of data collection in respect of the official governmental statistics presented in this circular. The official governmental statistics referred to in this circular may not be accurate or may not be comparable with official governmental statistics produced for other economies, and should not be unduly relied upon. There is no assurance that the official governmental statistics stated in this circular are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

The Target Group has established management control systems to prevent, monitor or address the risks involved for the business operation of the Franchise Business. The Target Group has assessed the exposure of each risk factor quantitively and has adopted measures in mitigating the exposure of the risk factors, and as at the Latest Practicable Date, the Target Group did not find any risks factors mentioned above (e.g. risks regarding proposed new laws, rules, regulations and government policy in Beijing and its major markets that affect the Target Group's business, current internal control system and training in relation to prevention of food contamination, current leases of distribution centers, warehouses and headquarter offices, etc.) to have posed significant imminent impact to the business of the Target Group. Furthermore, there are no risk factors that have brought actual impact to the Target Group since January 1, 2008. Other than disclosed above, the Target Group currently does not expect any change of the business environment that will pose any additional risks to the business operation of the Target Group.

The Company considered all the risk factors in relation to the new business to be acquired as listed above. The Company will continue to adopt the ongoing control measures as implemented by the Target Group before the Proposed Acquisition and will identify other effective measures to minimize such risks as and when necessary.

11.2 Business Overview

A. OVERVIEW OF THE TARGET GROUP'S BUSINESS

The Target Group is a leading quick service restaurant chain operator in PRC, based on the number of stores as at September 30, 2011 according to *Euromonitor*. The Target is an investment holding company of a group of companies that owns the rights to operate the Yoshinoya (吉野家) and Dairy Queen quick service restaurant chains in the Franchise Regions.

The first Franchise Store was opened in Beijing in 1992. As of September 30, 2011, the Target Group operated the Franchise Business with over 200 Yoshinoya stores in the cities of Beijing, Tianjin, Shijiazhuang, Tangshan, Langfang, Handan, Shenyang, Dalian, HuHeHaoTe and Harbin in the Franchise Regions, and over 100 Dairy Queen stores in the cities of Beijing, Tianjin, Shijiazhuang, Langfang, Shenyang, Dalian and HuHeHaoTe in the Franchise Regions. The Target Group's Yoshinoya stores offer a variety of meals, principally the rice bowl, while its Dairy Queen stores offer a range of ice-cream cakes, frozen treats and beverages, including the "Blizzard" treats. In addition, the Target Group operates 6 distribution centers in Beijing, Dalian, Shenyang, Harbin, Tianjin and HuHeHaoTe, which were primarily established to store, process and repackage food to be distributed to the Franchise Stores. Over the years, through the provision of high quality food and services by experienced and well-trained employees, the Target Group has maintained its reputation to deliver high quality food with excellent taste in a speedy manner, at an affordable price and in a cosy environment in the Franchise Regions. The appeal of the Target Group's core products is demonstrated by the successful expansion of the Franchise Stores across the Franchise Regions.

Financial Information of the Target Group

The revenue, net profit before tax and extraordinary items and net profit after tax and extraordinary items of the Target Group for the three years ended December 31, 2008, 2009, 2010 and for the six months ended June 30, 2010 and 2011, prepared in accordance with HKFRS, were as follows:

	Year Ended December 31,			**Six Months Ended June 30,**	
(All in HK$ million)	**2008**	**2009**	**2010**	**2010**	**2011**
Revenue	778.0	955.9	1,234.2	562.4	743.1
Net profit before tax and extraordinary items	94.2	117.2	174.4	74.9	94.9
Net profit after tax and extraordinary items	61.6	81.1	120.4	50.9	64.6

The total net asset value of the Target Group as at June 30, 2011 was approximately HK$284.1 million. Following Completion, the Target Group will become a group of indirect wholly-owned subsidiaries of the Company and its financial information will be consolidated into the consolidated financial statements of the Company. The unaudited pro forma financial information of the Enlarged Group is included in Appendix III of this circular.

B. COMPETITIVE STRENGTHS OF THE TARGET GROUP

The Target Group's management believes that the following competitive strengths have contributed to the Target Group's success and will continue to drive its future growth.

(a) Well positioned to capitalize on favorable industry growth dynamics

The fast food industry in PRC is benefiting from compelling industry fundamentals such as rapid economic growth, urbanization, and increasing disposable income. According to *Euromonitor*, the PRC fast food industry has grown rapidly at a CAGR of 14.9% from RMB313 billion in 2006 to RMB546 billion in 2010 and is expected to grow at a CAGR of 10.7% from 2011 to reach RMB938 billion in 2015. Among different types of fast food in PRC, Asian cuisine is the most preferred, constituting approximately 88% of the overall fast food industry in PRC in terms of sales in 2010.

At the same time, ice-cream product is also gaining popularity in PRC. With an expected CAGR of 19.8% from 2011 to 2015, ice-cream fast food is expected to have the highest growth rate than the other segments within the fast food industry in PRC, according to *Euromonitor*. The Target Group has achieved a faster CAGR of 25.9% in revenue when compared to the overall fast food industry CAGR of 13.5% from 2008 to 2010, and the Target Group's management believes that it will be well positioned to capitalize such favorable industry growth dynamics.

(b) Leading quick service restaurant chain operator in PRC with well-recognized brands of strong heritage

With approximately 20 years of operating history in PRC, the Target Group is a leading quick service restaurant chain operator in PRC. According to *Euromonitor*, the Target Group is one of the leading quick service restaurant chain operators in Beijing, Shenyang and Dalian in terms of number of stores as of September 30, 2011.

Yoshinoya is a well-known rice bowl brand with over 100 years' history, while Dairy Queen is a popular ice-cream brand with over 70 years' history. The Target Group has successfully executed the Franchise Business with the two brands in PRC, and benefited from scale advantage because of (i) enhanced bargaining power over landlord (including shopping malls) on securing good store locations; (ii) optimizing supply chain management via sharing distribution centers and logistics; and (iii) higher flexibility in human resources management.

In 2010, the Target Group was awarded as "China's Top 10 Food & Beverages Enterprises in 2010" by the "World Cuisine Magazine". In 2011, it was awarded as "China Top Brand Corporation of Catering Services" by the Chinese Academy of International Trade and Economic Cooperation of the Ministry of

Commerce, "China's Top 10 Growing Food & Beverages Enterprises in 2011" and "China's Leading Food & Beverages Enterprises in 2011" by "New Champions Magazine".

(c) High quality, safe and tasty food offering sold at affordable prices

The Target Group aims to offer delicious, healthy and affordable everyday food of consistent high quality that appeals to a large number of Chinese customers.

High quality with localized taste: While most of its key competitors serve western cuisine with fried food, the Target Group's management believes that rice-based Asian cuisine caters much better to Chinese customers' taste preference and allows consumption on a more frequent basis. In addition, the Target Group offers a range of ice-cream flavors and products, as well as a number of localized ice-cream products specifically developed to appeal to Chinese customers' taste preference.

High food safety assurance: The Target Group has imposed stringent food safety control throughout the entire food preparation process, from selection of ingredients and suppliers, to processing, delivery and cooking at stores. The Target Group's management believes that in the current environment where food safety is a major concern for both the Chinese government and consumers, this is a key positive factor for the Target Group given its high food safety assurance.

Offered at affordable prices: The Target Group's food products are targeted at customers with a wide age and income range given the good value proposition. The Target Group's management believes that customers can enjoy the Target Group's food products at reasonable prices while the Target Group's key competitors mainly target customers with narrower age and income range.

(d) Efficient and integrated infrastructure leading to highly standardized and scalable business

The Target Group has established an efficient and integrated infrastructure that has enabled it to build a highly standardized and scalable business, as evidenced by the Target Group's rapid growth to date. The Target Group's total number of Franchise Stores increased from approximately 188 as of December 31, 2008 to approximately 314 as of September 30, 2011.

The Target Group's infrastructure comprises of systems focusing on multiple key functional areas, including raw materials sourcing, quality inspection, standardized food processing, logistics and distribution, human resources training and deployment and information technology. In addition, the Target Group has also developed a systematic store opening procedure that enables it to open stores in a quick and cost-efficient manner. The Target Group has local business development teams that focus on opening stores in different cities. For each of the key functional areas, the Target Group has a dedicated team built over the last approximately 20 years which ensures its efficient operation and seamless coordination with other functional areas.

The Target Group's management believes such infrastructure will also enable the Target Group to continue expanding quickly in existing and new markets while maintaining consistent quality standards across its stores.

(e) High growth potential with multiple growth opportunities

The Target Group has maintained rapid and sustainable growth during the past few years, with revenue and total net profit increasing at a CAGR of approximately 25.9% and 39.8% respectively from 2008 to 2010. Such growth was attributable to the successful execution of management's store opening plan, sustainable same-store sales growth as well as improved operating efficiency. This has in turn generated a sustainable free cash flow to the Target Group, funding its continuous expansion as well as maximizing its return to shareholders.

In the future, the Target Group has high growth potential with multiple growth opportunities, such as further penetrating into existing markets, expanding into new markets, further increasing same-store sales and profitability, and potentially operating additional branded quick service restaurants. Please refer to the section headed "Strategies of the Enlarged Group" regarding the detailed corporate strategies to pursue each growth opportunity. The Target Group's management believes the Target Group's current leadership in its home markets as well as efficient and integrated infrastructure provides a solid foundation for it to successfully execute its growth strategies to realize its growth potential.

(f) Passionate, dedicated and experienced senior management team supported by motivated local staff

The Target Group has built a passionate and dedicated senior management team with management and operational experience as well as extensive knowledge of the fast food industry in PRC. The Target Group's management team is headed by its Chief Executive Officer, Mr. Hung Ming Kei, Marvin, who was involved from the beginning of the opening of the first Franchise Store in Beijing, and has been in the PRC fast food industry since 1992. Mr. Hung Ming Kei, Marvin has won numerous awards recognizing his professional excellence, including the "Outstanding Entrepreneur of China's Food & Beverage Industry Award" awarded by the China Cuisine Association in 2010, the "Individual Award for Advanced Food Safety Management" awarded at the China Food Safety Annual Conference 2010, and the "Outstanding Contribution Award" awarded by the Beijing Chinese Business Association in 2011. Mr. Hung Ming Kei, Marvin has infused international visions, core values and management philosophies into the Target Group, and is instrumental in building and expanding the Target Group.

Furthermore, the senior management of the Target Group consists of Mr. Hung Ming Kei, Marvin and Mr. Guo Peilian who have extensive industry experience and have been with the Target Group for approximately 20 years since the beginning of the Franchise Business. They are supported by a team of motivated and dedicated staff with local market and industry knowledge built over the last approximately 20 years.

The Target Group's management believes that the senior management team's vision, extensive industry experience, loyalty, management capabilities, ability to effectively implement the Target Group's shared business philosophies, vision and core values are critical to the Target Group's success and will continue to contribute to the Target Group's growth in the future.

C. STRATEGIES OF THE ENLARGED GROUP

It is envisaged that the Enlarged Group will pursue strategies that are designed to maximize stakeholders' value with regard to the Target Group. The Target Group aims to strengthen its position as a leading quick service restaurant chain operator in PRC through the following strategies:

(a) Further penetrate existing markets and expand into selected regions

The Target Group currently does not have any plan to expand into its Franchise Business outside of the existing Franchise Regions. It plans to focus on further penetrating into its existing markets through new store openings in the Franchise Regions where it currently has operations as well as expanding into selected new regions within the Franchise Regions. The Target Group believes that expanding in existing cities enables it to increase economies of scale and leverage its local market expertise, network and brand equity to maximize profit levels in each market. Furthermore, the Target Group believes that its multi-brand platform strategy is effective in PRC where competitive advantages are also derived from prior or existing business relationships.

The Target Group is currently expanding its presence in cities such as Shijiazhuang, Tangshan, Langfang and Handan in Hebei Province and Tianjin municipality and Harbin in Heilongjiang Province. When entering new cities, the Target Group plans to adhere to clear market entry strategies that can leverage its marketing efforts and facilitate brand building. The Target Group's store network expansion plan will also take into account the scalability, distance from and geographical reach of its distribution centers in order to minimize additional capital expenditure and ensure consistent quality control. Currently, the Target Group intends to open approximately 90 Franchise Stores in the Franchise Regions in 2012. The Target Group currently expects future capital expenditure for opening of new Franchise Stores in 2012 to be approximately HK$150 million. As disclosed in the paragraph headed "Liquidity and Capital Resources" under the section headed "Financial Information and Management Discussion and

Analysis of the Target Group" for the Target Group's funding policy of its business operations, the Target Group's funding policy is to finance the business operations with internally generated cash and bank facilities.

(b) Drive same-store sales growth and profitability

The Target Group plans to further enhance its overall financial performance by driving sales and profitability in its existing restaurants, mainly by focusing on the following key initiatives:

Attract more customers during non-peak hours: The Target Group plans to attract customers during non-peak hours by offering discounts and promoting its breakfast menu and tea-time menu, and by regularly carrying out promotional activities and enhancing customers' experience.

Expand delivery services: The Target Group plans to expand its delivery services for its Franchise Stores which resolves the constraints of seating capacity limits for its stores during peak hours and also helps to expand its customer base to those people who are too busy to visit its stores.

Enhance customer experience: The Target Group plans to enhance customer experience by implementing a range of store-improvement policies such as upgrading restaurant facilities and sales tools. The Target Group also plans to upgrade restaurant decor and improve store ambience.

(c) Strengthen marketing efforts of the current franchises and diversify brand portfolio

The Target Group's management believes that the strong recognition of the franchise brands has historically been crucial to its success, and the Target Group intends to further leverage and enhance the brand recognition by stepping up its marketing efforts and utilizing innovative and creative marketing strategies and media channels.

Furthermore, the Target Group intends to selectively pursue complimentary new business opportunities with a multi-brand strategy by leveraging on its successful on-the-ground experience. The Target Group will also carefully and selectively evaluate strategic acquisition and investment opportunities. By diversifying its brand portfolio, the Target Group would be able to reduce exposure to risks in a specific market segment, derive cost efficiency and synergy from sharing operations or functions, leverage its industry knowledge and experience, pool negotiating power with landlords and suppliers, and coordinate marketing and promotion initiatives across different brands and market segments.

(d) Continue to offer high quality food via further improving supply chain management

The Target Group plans to strictly adhere to its principle of offering high quality food, to always keep quality and safety as top priority and to pursue a growth strategy without compromising conscientiousness (良心) towards customers. The Target Group intends to maintain this emphasis on food quality and hygiene assurance by continuing its strenuous supplier selection and quality control processes.

When developing new menu items, the Target Group's strategy is to keep the ingredient mix simple so that stringent quality control can be maintained. In addition, the Target Group will regularly review its suppliers based on their credentials, the quality of ingredients they provide as well as their understanding of the Target Group's business and requirements. The Target Group has entered into a strategic alliance (農餐對接) with local farmers to directly procure low cost and high quality ingredients. Such arrangement is expected to enable stronger control over its supply chain which is in turn expected to ensure consistent and high quality food of the Target Group. The Target Group will continue to build on its current supply chain ensuring the infrastructure is sufficient and capable to support its expansion plan in the next few years.

(e) Further enhance human resources management through systematic training and professional development

The Target Group is fully committed to its employees and their training and well being, as the Target Group believes that employee excellence and overall satisfaction will ultimately lead to strong growth of its business. Therefore the Target Group will continue to seek to retain as well as attract qualified employees, particularly restaurant staff and talents in operations management, by increasing its efforts in recruitment and human resources management.

Recruitment: The Target Group will continue to utilize diversified recruitment channels such as newspapers and advertisements. The Target Group will continue to offer competitive remuneration and welfare packages as well as maintain a safe and comforting working environment to attract new employees. It will also strive to offer its employees a clear career path with promotion opportunities to managerial positions.

Training: The Target Group plans to continuously enhance the service and quality of its employees through systematic, regular and well-designed training programs.

D. AWARDS AND ACCREDITATIONS

The Target Group has obtained awards and certifications which recognize its performance in the food & beverages industry. The following table sets forth the recent key awards and certifications received by the Target Group:

Award/Accreditation	Year	Issuing Authority/ Organization
China's Leading Food & Beverages Enterprises in 2011 (2011年度中國餐飲行業領軍)	2011	New Champions Magazine (《新領軍》雜誌社)
China's Top 10 Growing Food & Beverages Enterprises in 2011 (2011年度中國餐飲行業成長十強)	2011	New Champions Magazine (《新領軍》雜誌社)
China Top Brand Corporation of Catering Services (中國餐飲服務名牌企業)	2011	Chinese Academy of International Trade and Economic Cooperation of the Ministry of Commerce (商務部國際貿易經濟合作研究院)
China's Top 10 Food & Beverages Enterprises in 2010 (2010年度中國餐飲業十佳企業)	2010	World Cuisine Magazine (餐飲世界雜誌社)

E. OVERVIEW OF THE RESTAURANT OPERATIONS OF THE TARGET GROUP

(a) The Franchise Business

The Target Group entered into long-term franchise agreements with the Franchisors which give the Target Group exclusivity to operate the Franchise Stores in the Franchise Regions, with remaining terms (including automatically renewable terms under the relevant franchise agreements) of no less than approximately 20 years in general.

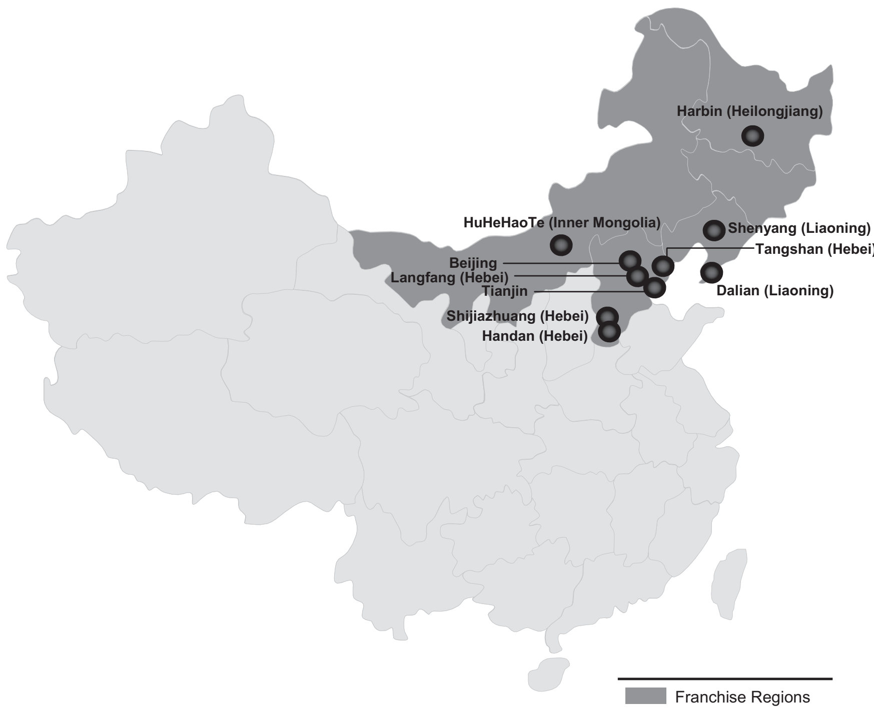
The franchise agreements set out the general roles and obligations of the Franchisors and the Target Group as the franchisees. The roles and obligations of the Target Group include the rights to use and sub-license the use of the Franchisors' brand names, trademarks and confidential manuals in the operation of the Franchise Business in the Franchise Regions, the payment of franchise fees for the rights to operate the Franchise Business in the Franchise Regions, and the adherence to the standards and procedures required by the Franchisors in the operation of the Franchise Business and the training of employees for the operation of the Franchise Business to maintain the consistency in the quality of food and services of the Franchise Stores. The franchise fees payable by the Target Group to the Franchisors are calculated based on the revenue of the Franchise Business.

The franchise agreements can be terminated by the non-defaulting party in the events of insolvency, violation of laws, regulations or rules in relation to the operation and management of the Franchise Business in the Franchise Regions, and material breach of the franchise agreements. The Franchisors generally do not have the right of early termination of the franchises except in very limited circumstances, for example, upon default or breach of the franchise agreements and upon the failure of the Target Group to remedy such breach and the bankruptcy of the franchisees. In the event that the Franchisors terminate the franchise agreements in breach of the terms of such agreements, the Target Group shall have legal recourse under the common law. Upon termination of the Franchise Agreement, the Target Group shall discontinue the use of the Franchisors' trademarks and shall remove all signs and materials with the brand design in the Target Group's properties at no costs of the Franchisors, and shall return all confidential manuals in relation the Franchise Business to the Franchisors.

The Target Group strives to maintain the standards in operating the Franchise Stores under the respective franchise agreements by imposing stringent quality control measures in food ingredients procurement, food preparation process and provision of regular and quality training to all the employees of the Target Group. Save for disclosed in this circular, there is no other commitment from the Target Group under the franchise agreements that may be relevant for shareholders' assessment of the Proposed Acquisition. For the Track Record Period, the Target Group has not received any written notice from the Franchisors accusing the Target Group of material breach of the franchise agreements in operating the Franchise Stores in the Franchise Regions.

(b) Store Network

The following map shows the Target Group's Franchise Regions and the cities where the Target Group currently has presence as of September 30, 2011.



As of September 30, 2011, the Target Group directly operated over 200 Yoshinoya stores and over 100 Dairy Queen Stores in the Franchise Regions. The following table sets forth the approximate number of the Franchise Stores in Beijing, Tianjin, Shijiazhuang, Tangshan, Langfang, Handan, Shenyang, Dalian, HuHeHaoTe and Harbin in the Franchise Regions.

City	Number of Yoshinoya Store(s) (Approximately)	Number of Dairy Queen Store(s) (Approximately)
Beijing	140	75
Tianjin	12	8
Shijiazhuang	3	2
Tangshan	2	—
Langfang	1	1
Handan	2	—
Shenyang	25	6
Dalian	16	10
HuHeHaoTe	6	4
Harbin	1	—
Total	208[1]	106[1]

Note:

1. Some of the Franchise Stores are combined stores operating both Yoshinoya and Dairy Queen franchise businesses.

(c) Store Format

The store format of the Franchise Stores may differ depending on the location of the store. Some of the stores are street-level stores, which are stand-alone stores situated at street level, store-in-stores, which are stores situated inside shopping malls, and food court counters, which are counters situated in the food courts of shopping malls. Most of the Franchise Stores are typically operating under a long-term lease arrangements ranging from five to ten years and may contain options to extend for another one to five years.

(d) The Yoshinoya Menu

The main menu offers an extensive selection of food that caters to the tastes and flavors of the customers in the Franchise Regions, including rice bowl, with beef, chicken or pork, which is further supplemented by side dishes such as oden, steamed egg, salad, kimchi, miso soup, mash potato with tuna salad and rice dumpling. The price per meal generally ranges from RMB15 to RMB25, and the price of the menu sets for breakfast and tea time range from RMB5 to RMB10. The price of the food products varies slightly from city to city.

(e) The Dairy Queen Menu

The main menu offers a range of traditional ice-cream cakes, frozen treats and beverages, including "*Blizzard*" treats (soft-served ice-cream blended with mix-in ingredients such as cookies, nuts, candy or fruit), soft-served ice-cream in waffle cones or dipped in crunchy cone coatings, "*Moolatte*" frozen blended coffee, sundaes, banana split, hot dogs, Orange Julius fruit drinks and Orange Julius premium fruit smoothies. The prices of the food products, with the exception of ice-cream cakes, generally range from RMB5 to RMB30. The price of the food products varies slightly from city to city.

(f) Target Customers of the Franchise Stores

The Target Group's principal target customers are working groups between the ages of 25 and 35 who are looking to dine in a comfortable and aesthetically pleasing environment at affordable prices, as well as students between the ages of 15 to 24 who are looking for high quality and tasty fast food. The Target Group believes that they are the group of customers that have a relatively higher level of spending power.

(g) Product Improvement

The Target Group appreciates the importance of improving menu items from time to time in order to increase the frequency of visits by its target customers and in response to the changing tastes of the customers. The headquarters management team is responsible for continuous product improvement including improvement of the existing menus and the adoption of new ingredients from different suppliers. Generally, the improved menu items developed by the product team will be tested first in selected store locations, and if successful, will be introduced to the stores across the Franchise Regions.

(h) Pricing Policies

Because of the differences in local economies in PRC, the Target Group adjusts its restaurants' prices according to local operating conditions, the purchasing power and spending habits of customers in the stores' localities. The Target Group's regional management team decides the pricing for each Franchise Store in the Franchise Region. When determining the Target Group's overall pricing policies, the Target Group's regional management teams consider many factors, including general market trends, prices set by its competitors, the location of its restaurants, raw materials prices and transportation fees and the pricing relationship among menu categories and items, based on extensive research and analysis conducted by its regional management teams on a regional and city-by-city basis.

(i) Brand Management and Marketing

The management of the franchise brand names is a combined effort of:

- network development;
- product and service quality;
- pricing of food products;
- innovative recipes and menus;
- dining environment; and
- marketing and promotion.

The marketing department of the Target Group is responsible for the advertising and promotion of the Franchise Stores. Since the food and beverages industry is a highly competitive industry, the Target Group recognizes the importance of developing public awareness of the brands and a positive corporate image of the Franchise Business, which is crucial for the Target Group to maintain its competitive edge. To increase the brand awareness of the Franchise Stores in the Franchise Regions, the Target Group regularly markets the Franchise Stores through periodic advertisements and organizes lucky draws and other promotional activities with its beverages suppliers.

(j) Store Opening and Site Selection

The Target Group continuously looks for attractive locations for the expansion of its store network. The Target Group believes that the location of each Franchise Store is critical to its long-term success and brand image. Before the opening of each Franchise Store, the Target Group conducts a series of feasibility studies with the focus to maximize sales, profits and investment return. The Target Group generally considers factors including, without limitation, the following:

- the geographical location, neighborhood and accessibility of the site, for example, whether it is located near or within any large shopping malls, office buildings, large scale hypermarkets, educational institutions, entertainment venues, and transportation interchanges;
- population density and the flow of pedestrian traffic;
- food consumption trends of the population in that particular area;
- estimated rental expenses and estimated returns on capital invested;
- estimated profitability and the time required to break even; and

- potential competition and cannibalization in the same area.

Site Selection

The Franchise Stores are usually situated at one of the following site locations:

- busy commercial districts with high pedestrian flow;
- entertainment centers;
- major shopping malls and office buildings;
- business districts;
- residential estates;
- airports and train stations;
- large scale hypermarkets; and
- department stores.

The Target Group has adopted standardized procedures and processes for store openings including site selection, store design and renovation, which help to manage its investment costs and increase the overall efficiency of the store opening process. There is a set of internal guidelines for opening stores to ensure regulatory compliance, such as obtaining requisite licenses and approvals. The Target Group follows the Franchisors' uniform decor standards for all the Franchise Stores to create a brand image.

(k) Management of the Franchise Stores

The Target Group employs a management infrastructure designed to promote efficiency in supervising, directing and supporting the operation, quality assurance systems, recruitment and training programs in different Franchise Regions.

Headquarters management — the head office in Beijing is responsible for the overall business and operation of the Franchise Stores in the Franchise Regions. It is primarily responsible for overseeing corporate and administrative matters, operational management and supervision, such as new store openings, management-level recruitment, sales and marketing and developing restaurant systems for the Franchise Stores.

Regional management — at the regional level, there are five operation and management companies responsible for operating and managing the Franchise Stores in different cities within the Franchise Regions under the general management of the operational headquarters in Beijing, the details of which are set out in the table below:

Name of the Company	**City/Cities**
BJ Yoshinoya Fast Food	Beijing, Tianjin, Shijiazhuang, Tangshan, Langfang and Handan
Harbin Hop Hing	Harbin
Liaoning Hop Hing	Shenyang
Dalian Hexing Fast Food	Dalian, Yingkou and Panjin
HuHeHaoTe Hop Hing	HuHeHaoTe

The management team of each of the operation and management company comprises a general manager, an operation director and a finance director. The regional management team is responsible for selecting and opening new stores, formulating pricing policies in the relevant city or cities, reviewing quality of ingredients supplied by local suppliers and providing training to the employees.

Restaurant Level Management — usually the Franchise Stores are each run by a restaurant management team responsible for day-to-day aspects of the operation, such as stock-taking and ordering ingredients and packaging materials for each Franchise Store every day, supervising food preparation at each Franchise Store, and arranging for promotional activities including the distribution of discount vouchers and flyers near each Franchise Store during non-peak hours, so that it is more flexible to respond quickly to market demand and improve business performance.

(l) Operations of the Franchise Stores

Most of the Franchise Stores open from 09:00 a.m. to 09:00 p.m. daily. Depending on the location, some of the stores have slightly different opening hours. In particular, the stores located in the food court of the shopping malls may have to comply with the opening hours of the shopping malls, the stores located near train stations may have longer opening hours, and a few of the Yoshinoya Franchise Stores operate 24 hours. Each Franchise Store is managed by at least one store manager, who is in charge of the overall operation of the store and his general responsibilities include ensuring that the staff have been properly trained to provide quality service to the customers, and that the store is adequately stocked and operating smoothly. The number of service staff differs from store to store, depending on the size of the store.

(m) Distribution Centers

In order to ensure consistent food quality at the Franchise Stores, the Target Group has established six distribution centers in Beijing, Dalian, Shenyang, Harbin, Tianjin and HuHeHaoTe to store, process and repackage food for distributing to the Franchise Stores located in the Franchise Regions.

The distribution centers contain food storage and processing facilities, making it convenient to store, prepare and distribute the ingredients to all the Franchise Stores in the Franchise Regions. Each of the distribution centers generally contains a room temperature warehouse, cold warehouse, frozen beef storage warehouse, beef slicing/processing room and cake production facility. The following table sets forth the specifications of the distribution centers in Beijing, Dalian, Shenyang, Harbin, Tianjin and HuHeHaoTe:

City	Total gross floor area	Number/Total size of room-temperature warehouse(s)* (Approximately)	Number/Total size of cold warehouse(s) (Approximately)	Number/Total size of frozen beef storage warehouse(s) (Approximately)	Number/Total size of beef slicing/ processing room(s) (Approximately)	Number/Total size of cake production room(s) (Approximately)
Beijing	7,955 m^2	1/3,859 m^2	2/367 m^2#	3/1,500 m^2	1/102 m^2	1/618 m^2
Dalian	1,900 m^2	1/776 m^2	1/300 m^2	1/78 m^2	1/66 m^2	1/38 m^2
Shenyang	1,674 m^2	1/924 m^2	1/485 m^2	1/128 m^2	1/79 m^2	1/58 m^2
Harbin	1,000 m^2	1/450 m^2	1/500 m^2	2/3.8 m^2	1/50 m^2	—
Tianjin	1,473 m^2	1/826 m^2	1/165 m^2	1/135 m^2	1/347 m^2	—
HuHeHaoTe	400 m^2	1/125 m^2	1/95 m^2	1/10 m^2	1/15 m^2	1/9 m^2

Note:

There is a separate cold warehouse of 1,500 m^2 which is being leased from an independent third party.

* The room-temperature warehouse in the distribution center is designed for the storage of dry food ingredients such as rice, miso soup powder, and other restaurant supplies such as tableware, cooking utensils, washing detergents and packaging materials. The cold warehouse in the distribution center is designed for storing frozen vegetables, processed beef and chicken.

(n) Food Preparation Process

With an objective to enhance efficiency and standardization in food preparation, as well as to minimize the chances of food contamination, the Target Group generally purchases processed ingredients, with the exception of frozen beef. The processing of beef is mechanized as much as possible; the frozen beef is processed in separate areas of the distribution centers to ensure that there is no cross-contamination. The processed beef is sliced in the beef slicing/processing rooms, and then sent to storage and refrigeration compartments before it is despatched to the stores by trucks with refrigeration facilities the next day upon receipt of the orders. The processed food served in the Yoshinoya Franchise Stores including beef and chicken are mixed together with rice and other food ingredients and cooked in the restaurant kitchens before being served to the customers.

All the products of Dairy Queen Franchise Stores are made at the stores upon the order of the customers, with the exception of the ice-cream cakes which are made at the cake production units in the Franchise Regions. The soft-served ice-cream is made by putting the flavored ice-cream mixture into the soft-served ice-cream making machine, and the soft-served ice-cream is often topped with caramel or chocolate sauce, blended as a milk shake, or blended with cookies, nuts, candy or fruits. It is sometimes served with fresh or canned fruits, like a banana split, or in waffle cones or dipped in crunchy cone coatings.

(o) Purchasing, Logistics, Storage and Inventory Control

(i) Beef, Chicken and Rice

The Target Group purchases beef, chicken and rice from local suppliers. The shelf life for beef, chilled chicken and rice is generally 1 year, 6 days and 1 year respectively. There are ongoing arrangements with approximately four to six suppliers in PRC who have passed strict national hygiene and quality control standards, obtained relevant animal product inspection certificates, and are familiar with the operational requirements of the Target Group.

(ii) Milk and Other Dairy Ingredients

The Target Group purchases milk and other dairy products imported from New Zealand from third party suppliers and dairy ingredients for producing ice-cream cakes, soft served ice-cream and frozen treats from third party suppliers designated by the Franchisor. The shelf life for milk is generally 12 days. The purchase of milk and other dairy products and dairy ingredients is implemented pursuant to ongoing long-term arrangements, and all the milk and dairy ingredients suppliers have passed strict national hygiene and quality control standards and are familiar with the operational requirements of the Target Group.

(iii) Other Store Supplies

Other than beef, chicken, rice, milk and dairy products, other food ingredients and key supplies required by the Franchise Stores and purchased by the Target Group include (i) other meats, such as processed fish, (ii) frozen vegetables and processed vegetables, (iii) seasoning and other dried foods, (iv) beverages, (v) kitchen and other restaurant equipment and utensils and (vi) uniforms from PRC suppliers.

The Target Group currently does not purchase any ingredients directly from the Franchisors. The Target Group strives to centralize required purchases to the extent practicable to maximize cost savings through economies of scale and achieve consistent quality. The procurement department in Beijing headquarters consolidates the purchase orders from all the Franchise Stores in the Franchise Regions and determines the total amount of supplies required. These supplies are delivered by the suppliers directly to the relevant distribution centers in the Franchise Regions. Through the use of key performance indicators, the Target Group evaluates and monitors the fluctuation in costs of food ingredients. The key performance indicators consist of the percentage change in costs of different food ingredients, and the percentage change to food price driven by change in costs of food ingredients.

(iv) Selection of Suppliers and Kickback Prevention Arrangements

The Target Group selects its suppliers based on a careful comparison of the quality and prices offered by different suppliers and performs regular reviews of the suppliers' products and service quality with the objective of continuously enhancing the quality of food and standardization of ingredients supplied to its stores. To ensure a sufficient supply of ingredients at stable cost, the Target Group has an average of four to six suppliers for each of its major ingredients including beef, chicken, rice and milk. The Target Group also has strong and close relationships with its suppliers. On average, the Target Group has three to five years of business relationship with its major suppliers. All the suppliers are independent third parties to the Target Group.

During the Track Record Period, there have not been any material incidents of substantial food supply interruption, early termination of contractual arrangements with suppliers or failure to secure sufficient quantities of food ingredients during the terms of the suppliers' contracts.

In order to prevent any kickback arrangements with the suppliers, the Target Group selects its suppliers from a bidding process each year. All the contracts with the suppliers require approvals from the audit department, quality control department, financial department, legal department and the deputy manager of the management department. The officers involved in the suppliers selection process in the procurement department are subject to rotation from time to time. In the events where the contract amount exceeds RMB500,000, the contract negotiation will be conducted by two officers from the procurement department. All the suppliers' contracts contain provisions on anti-bribery and complaint mechanisms for the suppliers to lodge complaints with the Target Group's senior officers on a confidential basis.

(v) Logistics, Storage and Inventory Control

The logistics and inventory control department of the Target Group coordinates the purchasing, storage and delivery of supplies throughout the Franchise Store network in the Franchise Regions. The beef is processed at the distribution centers in Beijing, Dalian, Shenyang, Harbin, Tianjin and HuHeHaoTe for delivery to the Franchise Stores in their proximity. All the food ingredients, cooking utensils and tableware are procured by headquarters and delivered to the regional distribution centers for storage and later delivered to individual stores. The delivery of all frozen food is carried out by trucks with refrigeration facilities and disinfected daily to ensure the freshness and hygiene standards.

The logistics and inventory control personnel regularly monitor the quality and freshness of the inventory in the distribution centers. The manager at each Franchise Store conducts a daily review of the inventory level of food and supplies to maintain appropriate inventory levels for each store's operational needs while eliminating excess inventory. The Target Group believes that its current distribution centers are sufficient to support its existing stores as well as many of its planned new stores, and are scalable to meet the Target Group's increasing storage and delivery needs as it further expands in the Franchise Regions.

(vi) Quality Control

The Target Group implements strict quality control systems and procedures and maintains high hygiene standards throughout the food production process from food procurement, food storage and processing at the distribution centers, to food preparation at the individual store level.

For food hygiene purposes, the Target Group has implemented a set of standard operating procedures for hygiene and cleanliness which all the food preparation and processing units must adhere to. These standard operating procedures stipulate that the production staff in the distribution centers and the Franchise Stores are properly attired in uniforms, aprons and working boots before entering the designated food preparation and processing areas. They are also required to wear masks, gloves and caps. The equipment and premises are also cleaned and disinfected daily at regular intervals. Mr. Hung Ming Kei, Marvin, is the general manager to oversee the food safety control of the Target Group. From a corporate structure aspect, the supply chain food safety is handled by deputy general managers of the Target Group; the quality control team is responsible for implementation of the relevant food safety policies and the daily control of food safety is monitored by specified quality control team. The overall team of food safety control comprises of five team members who have over 9 years of experience in the food industry and over 5 years of experience in quality control. Four out of the five team members possess the Food Science Degree to perform technical expertise in checking the quality of the food ingredients. For the Track Record Period, the Target Group has not been subject to any formal investigation regarding the hygiene of its food or stores by any government authorities.

The stores in Beijing have received ISO 14001:2004 certification acknowledging the quality in the stores' operation and management. The beef processing facilities, the food ingredients and tableware in Dalian and Shenyang have been awarded various international and national certifications for their quality control and business management systems, including the ISO 9001:2000 and HACCP certifications. HACCP is an internationally accepted technique for preventing microbiological, chemical and physical contamination in the course of food production processes. To obtain this certification, the Target Group is required to identify the potential risk areas in its production and supply processes and establish critical control points and critical limits, as well as other control measures, to ensure food safety.

The Target Group requires its frozen beef and processed chicken suppliers to obtain certificates for the origins and transportation hygiene as required under the relevant regulations in PRC. The Quality Supervision Inspection and Quarantine Bureau of the local government has on-site supervisory staff in each of the Target Group's beef processing facilities. The Target Group performs regular checks on the frozen meat stored at the distribution centers to ensure their freshness to ensure that the required standards for quality and hygiene are met. The Target Group also performs regular checks on the suppliers of its major ingredients (e.g. beef, chicken and rice) for approximately 50 times for the top 20 suppliers in 2011, mainly focusing on the certificates obtained by the suppliers, the hygiene standards adopted by the suppliers in relation to the storage of food, processing of food and on the employees involved in the food storage and processing procedures. The checks include visits of the factories of the suppliers, to check whether the factories have complied with the standards in food storage and processing claimed to have been adopted by the suppliers. The staff of the Target Group mainly focuses on the quality of the food ingredients, the temperature of the food storage facilities, the cleanliness of the food storage and processing areas, and the health and hygiene standards adopted by the employees in the factories. The Target Group also performs sample check of the food quality upon receipt of the food ingredients from the suppliers. Furthermore, the top 10 suppliers of the Target Group also engage qualified testing agencies in PRC to carry out quality control tests on their products on a yearly basis and they will send the reports produced by the qualified testing agencies to the quality control department of the Target Group for consideration.

The Target Group has implemented a quality control regime to assure the quality and hygiene standards of all its food products. Pursuant to the requirements of HACCP, the Target Group performs regular checks on the results of all of the hazard analysts at every critical control point during the food production process, and the employees record quality control information at each critical control point.

All the employees at each of the beef processing facilities and the Franchise Stores are required to comply with stringent hygiene standards, including obtaining a certificate of health on a regular basis.

Fresh, frozen and dry food supplies used in the Franchise Stores including the beef, chicken, vegetables and dairy ingredients are checked at different stages at the time of shipment, delivery and prior to usage. The Target Group has also implemented strict quality review procedures for all the products sourced from the suppliers.

For the Track Record Period, the Target Group has not received any material complaints by its consumers that have not been resolved. Furthermore, for the Track Record Period, no material incidents have occurred regarding food poisoning which required government investigation.

(p) Cash Management System

All of the customers of the Franchise Stores pay in cash at the time of purchase. Therefore, the Franchise Stores handle a significant amount of cash every day. The Target Group has adopted a Point-of-Sale cashier monitoring system at all the Franchise Stores to ensure that the cash receipts are accounted for every day. The transaction summaries generated from the Point-of-Sale system are reconciled with the actual cash receipts and cash is deposited into the bank by each Franchise Store on a daily basis. To prevent cash misappropriation or embezzlement by the Target Group's employees and collusion among employees, the Target Group has adopted cash management standards and guidance which govern the payment receipt method and cash management method of employees. The managers of each store perform sample check of the cashier during the day to ensure no appropriation by the cashier staff. Furthermore, the Target Group also strictly requires that all cash received in the stores should be deposited into the relevant cash receipt company on a daily basis. Each duty restaurant manager and cashier is responsible for ensuring that the daily sales and expenses have been properly recorded and accounted for at the close of business of each day. The finance department of the Target Group conducts a monthly reconciliation of the bank deposit slips and the sales records.

During the Track Record Period, the Target Group has not encountered any incidents of material cash misappropriation and embezzlement.

(q) Credit Control

As the Franchise Stores' business is a cash business where the customers settle their bills at the time of ordering, there is no necessity for the Target Group to implement credit terms or a credit control policy in respect of the chain restaurant business.

(r) Management Information System

The Target Group has developed a continuously improving management information technology system including a Point-of-Sale system with real time data feedbacks covering all its stores to further standardize business operations and centralize financial control.

(s) Staff Training and Development

The Target Group is committed to providing regular and quality training to its employees as part of its quality control and employee recruitment and retention efforts. It requires each of its employees to adhere to the quality control procedures. By provision of initial and ongoing training, particularly for kitchen and other food preparation and processing staff, the Target Group ensures that its employees are aware and capable of executing their duties according to the required standards. The Target Group has formulated a set of quality control manuals that set out the standardized quality control rules and procedures that all the employees are required to observe. The manager of each Franchise Store is responsible for ensuring compliance on a daily basis.

F. COMPETITION

The consumer food services industry in PRC is highly competitive and fragmented, and the number, size and strength of the competitors of the Target Group vary widely by region. The Franchise Stores in the Franchise Regions compete with a number of other international, national and regional quick service restaurant chains. The Target Group believes that competition is based on, among other things, quality of food products, reputation, brand name recognition, price, restaurant location, customer service and restaurant environment. The Franchise Business is also impacted by various factors, including but not limited to, changes in consumer taste, economic and market conditions, demographic trends, traffic patterns, employee availability and benefits, regulatory developments, product availability and cost increases. As such, the Target Group strives to maintain high quality food and services, profitable business model, quality food products at affordable prices and a reputable brand name to enable the Franchise Stores to differentiate themselves from their competitors in the food and beverages industry.

G. INTELLECTUAL PROPERTY RIGHTS

The main trademarks and service marks to operate the Franchise Business by the Target Group are registered by the Franchisors in the Franchise Regions, and licensed to the Target Group and its associates for the operation of the Franchise Stores in the Franchise Regions.

H. PROPERTIES

As of September 30, 2011, the Target Group has leased over 200 properties in the Franchise Regions. These properties are mainly used as offices, distribution centers, and the Franchise Stores.

I. INSURANCE

Insurance is important to the business of the Target Group. The Target Group maintains insurance policies for its assets, which cover damages caused by certain accidents and natural disasters such as fire, and insurance policies for public liabilities, which cover death and property losses of third parties caused by accidents that occur during the Target Group's operations. The Target Group also maintains insurance policies that cover the Target Group's employee compensation liability for personal injury and illness, and cash insurance policies for loss of money in the Target Group's business premises.

J. LABOR AND SAFETY

So far as the directors of the Target Group are aware, the Target Group has complied with the applicable labor and safety regulations in all material respects, including the PRC Labor Law, the PRC Labor Contract Law, the Regulations on Work Injury Insurance, and the Provisional Regulations on Collection of Social Insurance Premiums.

K. LITIGATION

As of the Latest Practicable Date, the Target Group has not been involved in any litigation or arbitration proceedings pending or threatened against it or any of its directors that could have a material adverse effect on its business or operations. In particular, as of the Latest Practicable Date, the Target Group has not suffered from any significant product liability claims.

L. PRC REGULATORY COMPLIANCE

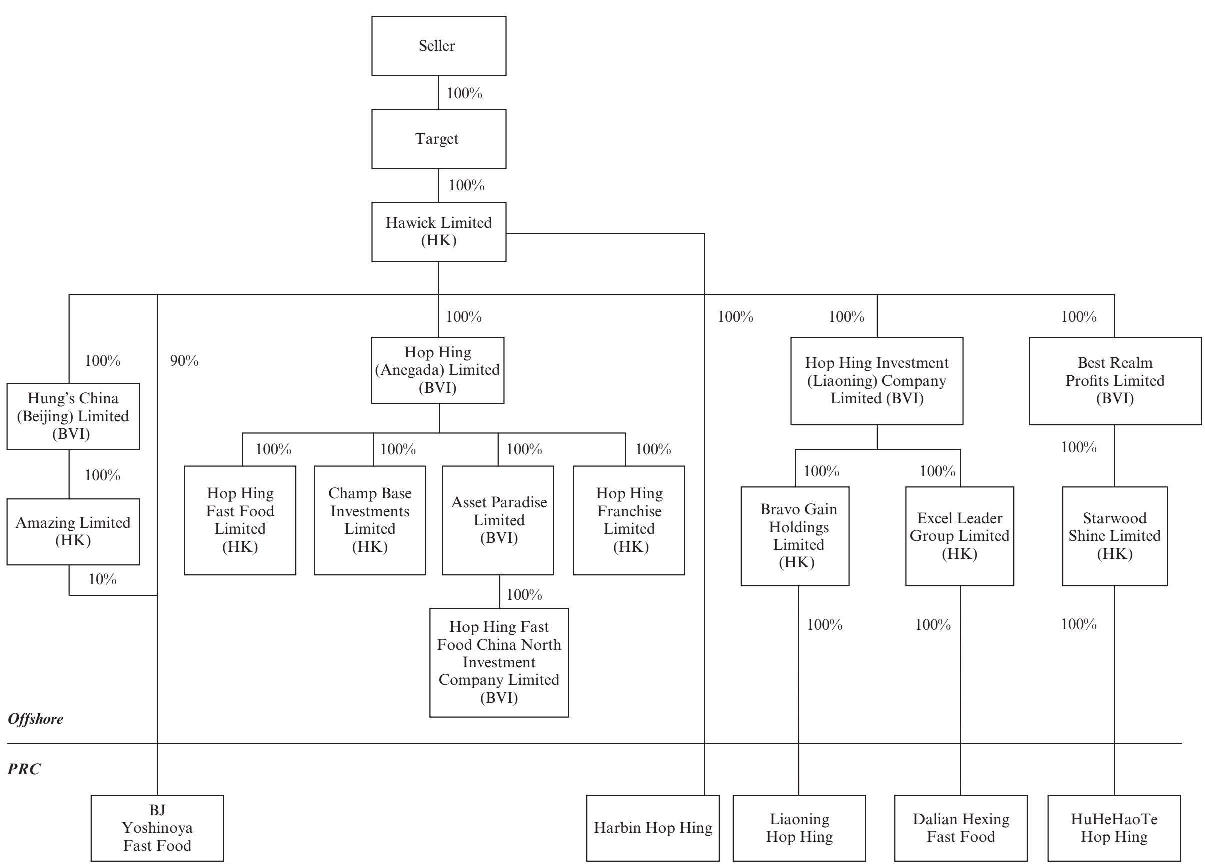
As at the Latest Practicable Date, several Franchise Stores have applied for or have scheduled to apply for environmental protection approvals and fire safety approvals by the government authorities, and there are no legal impediments to obtain these approvals.

As at the Latest Practicable Date, the Target Group has obtained from relevant PRC regulatory authorities all necessary licences and permits material for the carry out of the Franchise Business in the Franchise Regions.

Save for the non-compliance disclosed in the paragraph headed "The Target Group may be forced to cease use of certain properties and relocate to other locations" under the section headed "Risks relating to the Target Group's Business", there is no other non-compliance of the Target Group that is material to the operation of the Franchise Business. In the event the Target Group is asked by the governmental authorities to vacate from any of the distribution centers in question, in respect of the distribution centers located in Beijing, the Target Group has arranged for the other distribution center(s) to share and substitute the storage and food processing capacity. With respect to the rest of the distribution centers in the Franchise Regions, the Target Group has also arranged with the suppliers to send the food ingredients and other supplies directly to the Franchise Stores to ensure that the food ingredients and supplies can still reach the Franchise Stores and the normal operations of Franchise stores are not negatively affected.

11.3 History and Organization of the Target Group

The following diagram represents the simplified corporate structure of the Target Group after the Reorganization:



Reorganization of the Target Group

The companies now comprising the Target Group underwent the Reorganization which was completed on December 28, 2011 to rationalize the existing group structure for the purpose of the Proposed Acquisition. The major steps of the Reorganization are summarized below:

Step 1: The entire issued share capital of Hop Hing (Anegada) Limited (which is the holding company of Hop Hing Fast Food Limited and Champ Base Investments Limited) were transferred to Hawick Limited from the Target for a consideration at the net asset value of Hop Hing (Anegada) Limited;

Step 2: The entire issued share capital of the Target were transferred to the Seller for a consideration at the net asset value of the Target;

Step 3: The entire issued share capital of Best Realm Profits Limited (which is the holding company of Starwood Shine Limited and HuHeHaoTe Hop Hing) were transferred to Hawick Limited from Hop Hing Fast Food China North Investment Company Limited (a company owned by the Hung Family) for a consideration at the net asset value of Best Realm Profits Limited;

Step 4: The entire issued share capital of Hop Hing Investment (Liaoning) Company Limited (which is the holding company of Bravo Gain Holdings Limited, Excel Leader Group Limited, Liaoning Hop Hing and Dalian Hexing Fast Food) were transferred to Hawick Limited from Hung's China (Liaoning) Ltd (a company owned by the Hung Family) for a consideration at the net asset value of Hop Hing Investment (Liaoning) Company Limited;

Step 5: The entire issued share capital of Hung's China (Beijing) Limited (which is the holding company of Amazing Limited which holds 10% equity interest in BJ Yoshinoya Fast Food) were transferred to Hawick Limited from BJ China Option Ltd and Beijing China Fast Food (2004) Ltd (companies owned by the Hung Family) for a consideration at the net asset value of Hung's China (Beijing) Limited;

Step 6: The entire issued share capital of Asset Paradise Limited were transferred to Hop Hing (Anegada) Limited from Miscellaneous (2008) Limited (a company owned by the Hung Family) for a consideration at the net asset value of Asset Paradise Limited;

Step 7: The entire issued share capital of Hop Hing Franchise Limited were transferred to Hop Hing (Anegada) Limited from the Target for a consideration of the net asset value of Hop Hing Franchise Limited.

The details of each of the companies held by the Target are set out below:

A. The Target

The Target is an investment holding company that was incorporated in BVI with limited liability on March 23, 2000. The Target is owned by the Seller which is an investment holding company incorporated in the BVI and is wholly-owned by the Hung Family. The Hung Family together with its joint venture partners operates the Yoshinoya franchise stores in Hong Kong. As the other franchise stores operated by the Hung Family are located in a different geographical region from the Franchise Business of the Target Group, the Company is of the view that there is no potential conflict of interest. The Hung Family and the Seller will give a non-compete undertaking in favor of the Company that each of them shall not and shall procure that the Seller Group Companies not to engage in any chained restaurant business which sells primarily Japanese rice bowls and soft serve ice-cream (by using the same protocol as the Franchise Business) in the Franchise Regions. The principal assets of the Target is the 100% equity interest it holds in Hawick Limited, which in turn is the ultimate holder of 100% equity interest in the Franchise Holding Companies in the Franchise Regions, and the companies operating and managing the Franchise Stores in the Franchise Regions. Upon Completion, the Target will become a direct wholly-owned subsidiary of the Company.

B. Hawick Limited

Hawick Limited is a management holding company that was incorporated in Hong Kong with limited liability on July 1, 1988. The principal assets of Hawick Limited are the 100% indirect equity interests in the Franchise Holding Companies in the Franchise Regions, and the companies operating and managing the Franchise Stores in the Franchise Regions. Upon Completion, Hawick Limited will become an indirect wholly-owned subsidiary of the Company.

C. Hung's China (Beijing) Limited

Hung's China (Beijing) Limited is an investment holding company that was incorporated in BVI with limited liability on December 17, 2003. The principal asset of Hung's China (Beijing) Limited is the 100% direct equity interest in Amazing Limited, which holds 10% direct equity interest in BJ Yoshinoya Fast Food (a company operating and managing the Franchise Stores in Beijing, Tianjin, Shijiazhuang, Tangshan, Langfang and Handan). Upon Completion, Hung's China (Beijing) Limited will become an indirect wholly-owned subsidiary of the Company.

D. Hop Hing (Anegada) Limited

Hop Hing (Anegada) Limited is an investment holding company that was incorporated in BVI with limited liability on November 24, 1989. The principal assets of Hop Hing (Anegada) Limited are the 100% direct equity interests in three Franchise Holding Companies, namely Hop Hing Fast Food Limited, Champ Base Investments Limited and Hop Hing Franchise Limited, and the 100% direct equity interest in Asset Paradise Limited, an investment holding company which in turn holds 100% direct equity interest in Hop Hing Fast Food China North Investment Co. Ltd.. Upon Completion, Hop Hing (Anegada) Limited will become an indirect wholly-owned subsidiary of the Company.

E. Hop Hing Investment (Liaoning) Company Limited

Hop Hing Investment (Liaoning) Company Limited is an investment holding company that was incorporated in BVI with limited liability on April 19, 1993. The principal assets of Hop Hing Investment (Liaoning) Company Limited are the 100% direct equity interests in Bravo Gain Holdings Limited and Excel Leader Group Limited, which are investment holding companies holding 100% equity interest in Liaoning Hop Hing (a company operating and managing all the Franchise Stores in the Province of Liaoning, excluding Dalian, Yingkou and Panjin) and Dalian Hexing Fast Food (a company operating and managing all the Franchise Stores in Dalian, Yingkou and Panjin) respectively. Upon Completion, Hop Hing Investment (Liaoning) Co., Ltd. will become an indirect wholly-owned subsidiary of the Company.

F. Best Realm Profits Limited

Best Realm Profits Limited is an investment holding company that was incorporated in BVI with limited liability on December 3, 2004. The principal asset of Best Realm Profits Limited is the 100% direct equity interest in Starwood Shine Limited, which holds 100% direct equity interest in HuHeHaoTe Hop Hing (a company operating and managing all the Franchise Stores in the Inner Mongolia Autonomous Region). Upon Completion, Best Realm Profits Limited will become an indirect wholly-owned subsidiary of the Company.

G. Amazing Limited

Amazing Limited is an investment holding company that was incorporated in Hong Kong with limited liability on February 27, 2004, holding a 10% direct equity interest in BJ Yoshinoya Fast Food (a company operating and managing the Franchise Stores in the Beijing, Tianjin, Shijiazhuang, Tangshan, Langfang and Handan). Upon Completion, Amazing Limited will become an indirect wholly-owned subsidiary of the Company.

H. Hop Hing Fast Food Limited

Hop Hing Fast Food Limited is the Yoshinoya franchise holding company incorporated in Hong Kong with limited liability on April 19, 1988. Upon Completion, Hop Hing Fast Food Limited will become an indirect wholly-owned subsidiary of the Company.

I. Champ Base Investments Limited

Champ Base Investments Limited is the Yoshinoya franchise holding company incorporated in Hong Kong with limited liability on January 18, 2010. Upon Completion, Champ Base Investments Limited will become an indirect wholly-owned subsidiary of the Company.

J. Asset Paradise Limited

Asset Paradise Limited is an investment holding company that was incorporated in BVI with limited liability on March 20, 2003, holding a 100% direct equity interest in Hop Hing Fast Food China North Investment Co., Ltd. Upon Completion, Asset Paradise Limited will become an indirect wholly-owned subsidiary of the Company.

K. Hop Hing Franchise Limited

Hop Hing Franchise Limited is the Dairy Queen franchise holding company incorporated in Hong Kong with limited liability on December 17, 2004. Upon Completion, Hop Hing Franchise Limited will become an indirect wholly-owned subsidiary of the Company.

L. Bravo Gain Holdings Limited

Bravo Gain Holdings Limited is an investment holding company that was incorporated in Hong Kong with limited liability on August 22, 2007, holding a 100% direct equity interest in Liaoning Hop Hing, a company operating and managing all the Franchise Stores in the Province of Liaoning, excluding Dalian, Yingkou and Panjin. Upon Completion, Bravo Gain Holdings Limited will become an indirect wholly-owned subsidiary of the Company.

M. Excel Leader Group Limited

Excel Leader Group Limited is an investment holding company that was incorporated in Hong Kong with limited liability on August 22, 2007, holding a 100% direct equity interest in Dalian Hexing Fast Food, a company operating and managing all the Franchise Stores in Dalian, Yingkou and Panjin. Upon Completion, Excel Leader Group Limited will become an indirect wholly-owned subsidiary of the Company.

N. Starwood Shine Limited

Starwood Shine Limited is an investment holding company that was incorporated in Hong Kong with limited liability on June 8, 2007, holding a 100% direct equity interest in HuHeHaoTe Hop Hing, a company operating and managing all the Franchise Stores in the Inner Mongolia Autonomous Region. Upon Completion, Starwood Shine Limited will become an indirect wholly-owned subsidiary of the Company.

O. Hop Hing Fast Food China North Investment Co. Ltd.

Hop Hing Fast Food China North Investment Co. Ltd. is the Yoshinoya franchise holding company incorporated in BVI with limited liability on December 7, 1992. Upon Completion, Hop Hing Fast Food China North Investment Co. Ltd. will become an indirect wholly-owned subsidiary of the Company.

P. BJ Yoshinoya Fast Food

BJ Yoshinoya Fast Food is a company operating and managing the Franchise Stores in Beijing, Tianjin, Shijiazhuang, Tangshan, Langfang, Handan and was incorporated in PRC on June 16, 1997. Upon Completion, BJ Yoshinoya Fast Food will become an indirect wholly-owned subsidiary of the Company.

Q. Harbin Hop Hing

Harbin Hop Hing is a company operating and managing the Franchise Stores in Harbin. It was incorporated in PRC on August 5, 2011. Upon Completion, Harbin Hop Hing will become an indirect wholly-owned subsidiary of the Company.

R. Liaoning Hop Hing

Liaoning Hop Hing is a company operating and managing the Franchise Stores in the Province of Liaoning, excluding Dalian, Yingkou and Panjin. It was incorporated in PRC on August 2, 1995. Upon Completion, Liaoning Hop Hing will become an indirect wholly-owned subsidiary of the Company.

S. Dalian Hexing Fast Food

Dalian Hexing Fast Food is a company operating and managing the Franchise Stores in Dalian, Yingkou and Panjin. It was incorporated in PRC on October 5, 1997. Upon Completion, Dalian Hexing Fast Food will become an indirect wholly-owned subsidiary of the Company.

T. HuHeHaoTe Hop Hing

HuHeHaoTe Hop Hing is a company operating and managing the Franchise Stores in the Inner Mongolia Autonomous Region. It was incorporated in PRC on April 23, 2008. Upon Completion, HuHeHaoTe Hop Hing will become an indirect wholly-owned subsidiary of the Company.

11.4 Industry Overview

The PRC consumer food services industry has grown rapidly in recent years, driven primarily by the robust growth of the PRC economy, increasing urbanization and rising disposable income. According to *Euromonitor*, the PRC consumer food services industry has grown from RMB1,387 billion in 2006 to RMB2,257 billion in 2010, representing a CAGR of 12.9%. *Euromonitor* estimates that this industry is expected to grow at a CAGR of 9.9% from 2011 to reach RMB3,724 billion in 2015.

The PRC fast food industry, characterized by provision of speedy service and convenience, has also experienced tremendous growth in PRC. According to *Euromonitor*, the PRC fast food industry has grown rapidly at a CAGR of 14.9% from RMB313 billion in 2006 to RMB546 billion in 2010 and is expected to grow at a CAGR of 10.7% from 2011 to reach RMB938 billion in 2015.

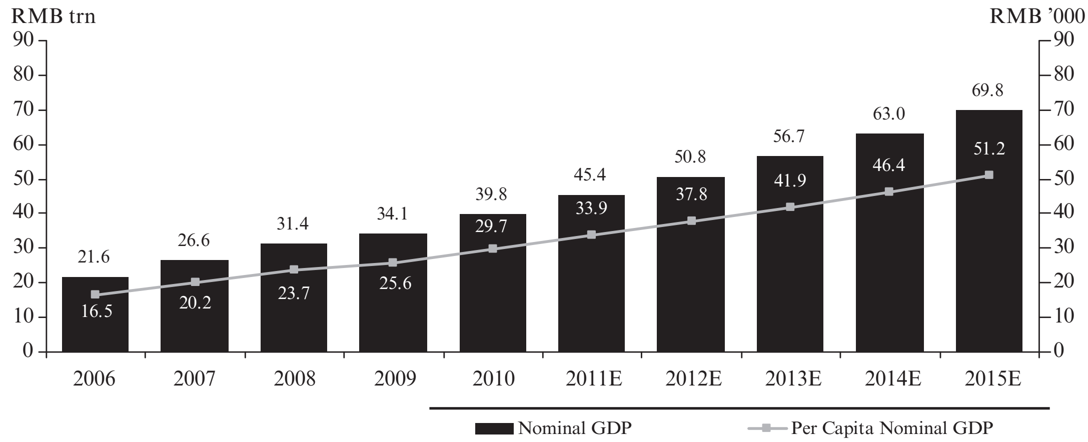
At the same time, ice-cream product is also gaining popularity in PRC. The PRC ice-cream fast food market has grown from RMB953 million in 2006 to RMB2.6 billion in 2010, representing a CAGR of 28.4%. With an expected growth of 19.8% from 2011 to 2015, the PRC ice-cream fast food industry is expected to have the highest growth rate when compared to other segments within the fast food industry in PRC, according to *Euromonitor*.

THE PRC ECONOMY

Strong GDP Growth

PRC is the most populous country in the world with a population of over 1.3 billion and has the second largest GDP in the world according to *Euromonitor*. Since economic reforms began in the late 1970's, the PRC economy has been experiencing rapid growth. According to the National Bureau of Statistics of China, PRC's nominal GDP grew from RMB21.6 trillion in 2006 to RMB39.8 trillion in 2010, representing a CAGR of 16.5%. *Euromonitor* estimates that PRC's nominal GDP is expected to grow at a CAGR of 11.4% from 2011 to reach RMB69.8 trillion in 2015. The chart below sets forth the historical and projected nominal GDP and per capita nominal GDP in PRC from 2006 to 2015.

Nominal GDP and Per Capita Nominal GDP in PRC in 2006–2015E

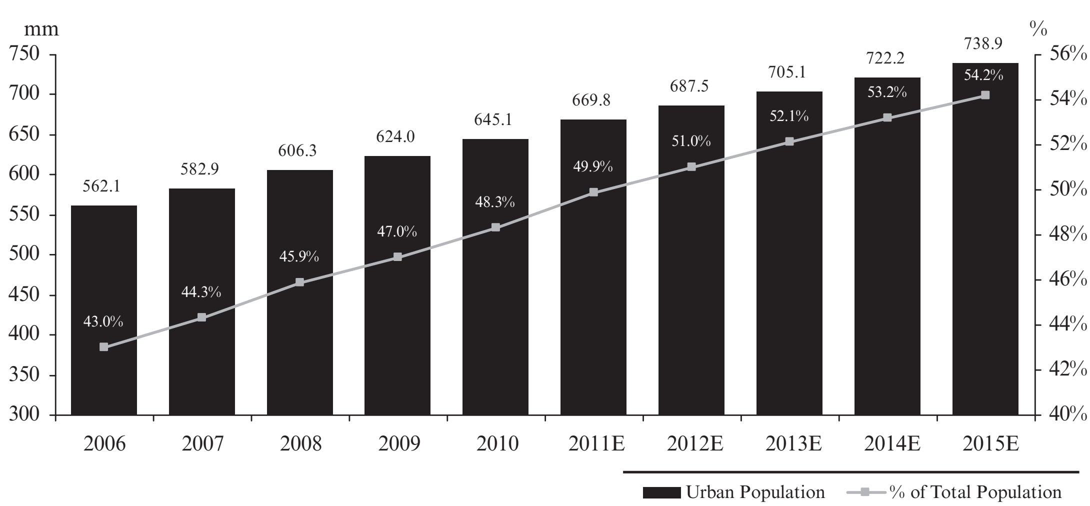


Source: *2006 to 2010 figures are from the National Bureau of Statistics of China and 2011E to 2015E figures are from Euromonitor*

Increasing Urbanization and Rising Disposable Income

The rapid economic development in PRC has led to a migration of rural population to urban areas and transformation of small towns into large-scale cities, contributing to accelerated urbanization and an increasingly affluent population. According to *Euromonitor*, PRC's urban population as a percentage of the total population increased from approximately 43.0% in 2006 to 48.3% in 2010. *Euromonitor* estimates that PRC's urban population is expected to reach 54.2% of total population in 2015. The chart below sets forth the historical and projected urban population in PRC from 2006 to 2015.

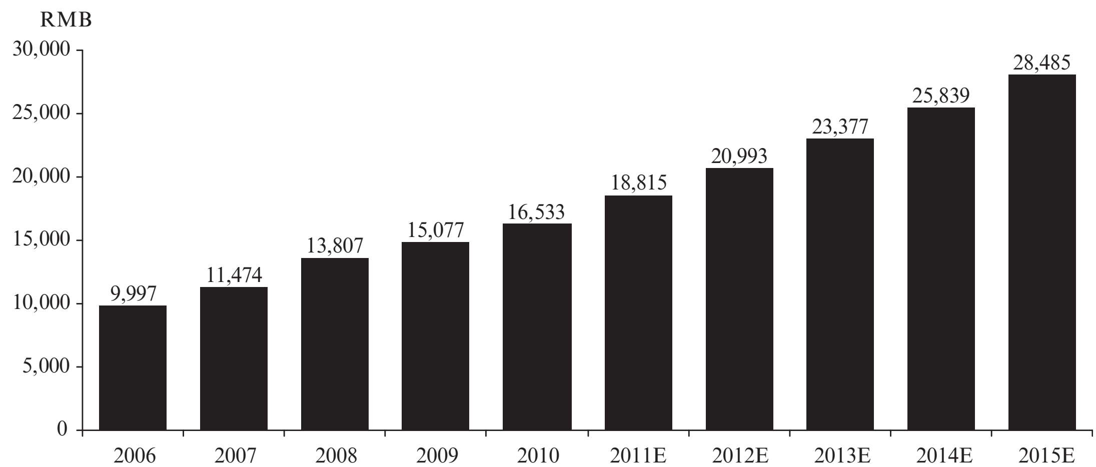
Urban Population in PRC in 2006–2015E



Source: *Euromonitor*

As a result of PRC's rapid economic development, living standards have improved. According to *Euromonitor*, annual per capita disposable income in PRC grew from RMB9,997 in 2006 to RMB16,533 in 2010, representing a CAGR of 13.4%. *Euromonitor* estimates that the annual per capita disposable income in PRC is expected to grow at a CAGR of 10.9% from 2011 to reach RMB28,485 in 2015. The chart below sets forth the historical and projected annual per capita disposable income in PRC from 2006 to 2015.

Annual Per Capita Disposable Income in PRC in 2006–2015E



Source: Euromonitor

Increasing Consumer Confidence and Changing Consumption Patterns

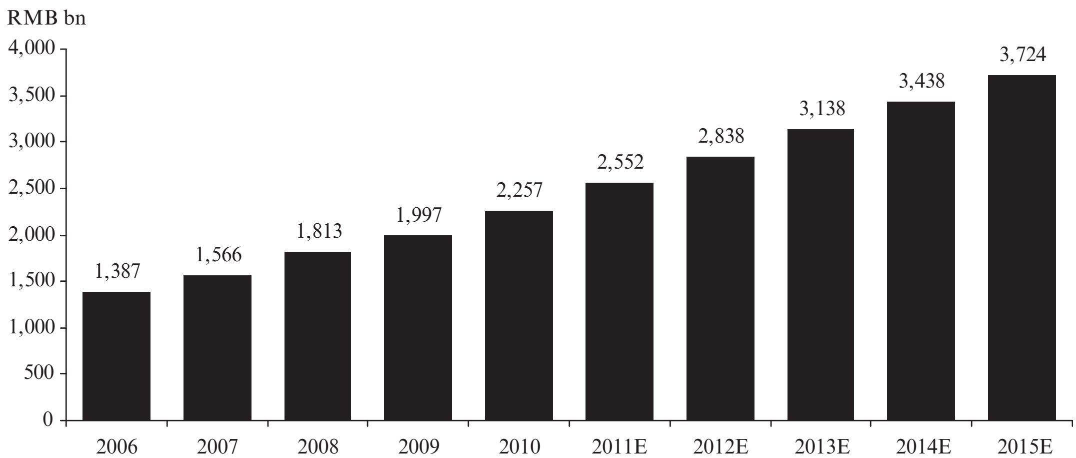
Urban PRC consumers have changed their consumption patterns amid PRC's robust economic growth and increasing affluence of its urban middle-class population. Both the number and frequency of consumers dining out have increased. In the past, most people in PRC dined out only on special occasions, but today, as the pace of life continues to accelerate in the urban areas, many consumers dine out multiple times a week for convenience. Urban residents tend to spend more time at work and dining out in groups has become a social event for many consumers in PRC. Smaller family size and an increasing percentage of women in the workforce also contribute to a growth in dining out.

THE PRC FAST FOOD INDUSTRY

The PRC Consumer Food Services Industry

The PRC consumer food services industry can be segmented by restaurant format (full-service restaurants, quick service restaurants, cafes and bars, street stalls and kiosks and others) or by types of cuisine (Asian, Western and others), as well as by operating model (chained and independent). According to *Euromonitor*, the PRC consumer food services industry has grown from RMB1,387 billion in 2006 to RMB2,257 billion in 2010, representing a CAGR of 12.9%. *Euromonitor* estimates that this industry is expected to grow at a CAGR of 9.9% from 2011 to reach RMB3,724 billion in 2015. The chart below sets forth the historical and projected total sales of the PRC consumer food services industry from 2006 to 2015.

Total Sales of the PRC Consumer Food Services Industry in 2006–2015E



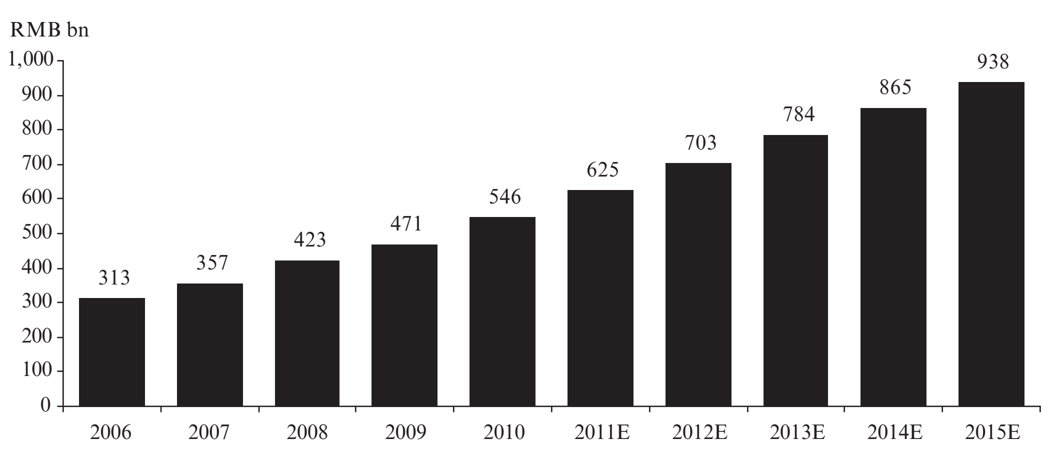
Source: *Euromonitor*

The PRC Fast Food Industry

Overall PRC Fast Food Market

According to *Euromonitor*, the PRC fast food industry has grown rapidly at a CAGR of 14.9% from RMB313 billion in 2006 to RMB546 billion in 2010 and is expected to grow at a CAGR of 10.7% from 2011 to reach RMB938 billion in 2015. The chart below sets forth the historical and projected total sales of the PRC fast food industry from 2006 to 2015. The lower CAGR in the next five years of the PRC fast food markets is due to an enlarging base and the market is expected to have strong potential to grow in absolute dollar terms.

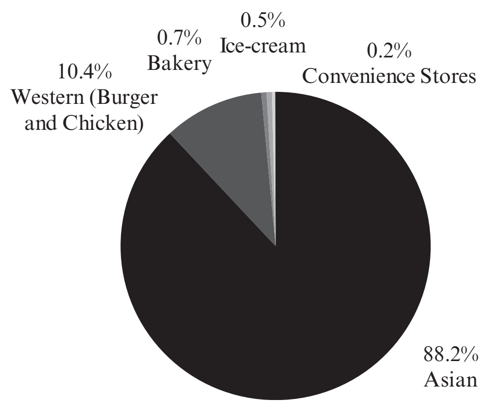
Total Sales of the PRC Fast Food Industry in 2006–2015E



Source: *Euromonitor*

Among different types of fast food in PRC, Asian cuisine is the most preferred, constituting approximately 88% of the overall PRC fast food industry in terms of sales in 2010 according to *Euromonitor*. The chart below sets forth the breakdown of the PRC fast food industry into different types of fast food in PRC in 2010.

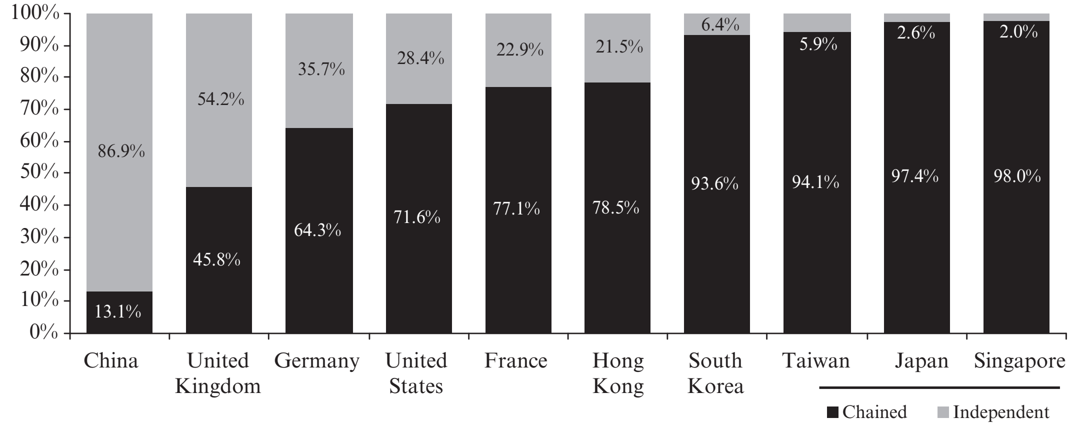
Breakdown of the Total Sales of the PRC Fast Food Industry in 2010



Source: Euromonitor

In terms of operating models, according to *Euromonitor*, chained stores constitute approximately 13.1% of total sales of the PRC fast food industry in 2010. This is relatively lower than other Western and Asian countries. According to *Euromonitor*, the proportion of chained stores in the PRC fast food industry in terms of total sales has been increasing from 2006 to 2010. Given chained fast food players heavily focus on food quality and safety, many consumers have traded up to chained fast food players. This has driven the sales of chained fast food players especially those leading players who have built good reputation in PRC, which has in turn further increased consumers' confidence in the leading players. Given the Target Group's operating model as quick service restaurant chain and its focus on offering high quality, safe and tasty food offering, the Target Group believes that this presents more opportunities for its growth. The chart below sets forth the breakdown of the PRC fast food industry into chained and independent stores in terms of sales in 2010.

Breakdown of Chained and Independent Fast Food Stores in Terms of Sales in 2010



Source: Euromonitor

Regional PRC Fast Food Markets

According to *Euromonitor*, the Beijing, Hebei and Liaoning fast food markets have been growing at CAGRs of 14.9%, 17.0% and 18.4% respectively from 2006 to 2010. *Euromonitor* estimates that the Beijing, Hebei and Liaoning fast food markets will continue to grow at CAGRs of 10.2%, 12.2% and 13.3% respectively from 2011 to 2015. The table below sets forth the historical and projected market sizes of fast food in Beijing, Hebei and Liaoning from 2006 to 2015.

Market Sizes of Fast Food in 2006-2015E

(RMB mm)	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Beijing	11,833	13,529	16,458	18,252	20,607	23,121	25,849	28,667	31,533	34,151
Hebei	12,120	13,891	16,878	19,196	22,681	26,387	30,124	34,013	38,054	41,857
Liaoning	10,908	12,533	15,353	17,810	21,461	25,225	29,100	33,178	37,484	41,605

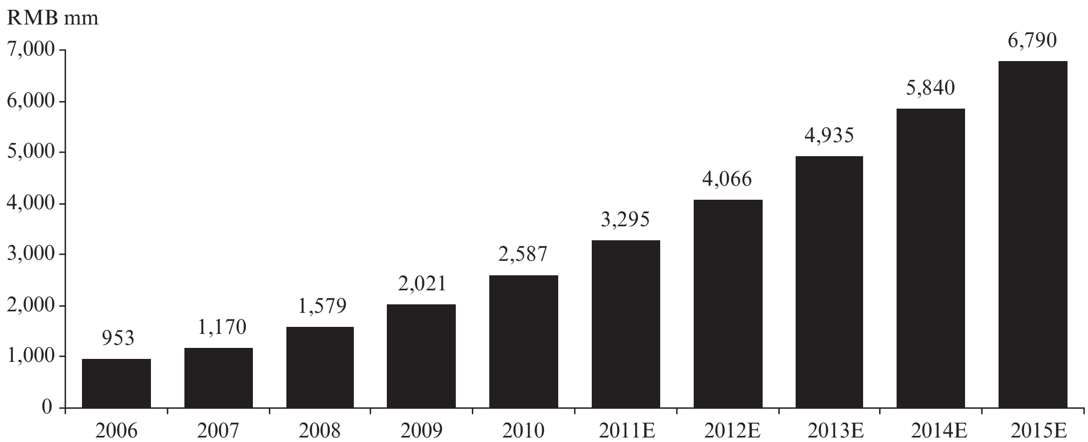
The PRC Ice-Cream Fast Food Industry

Overall PRC Ice-Cream Fast Food Market

According to *Euromonitor*, frozen series products started to be widespread in PRC market in the 1980s, when frozen ices became popular among PRC consumers in the summer time. Nowadays ice-cream has been gradually replacing traditional ices to be the daily snack all year round for modern consumers, and represents a trendy lifestyle. China's chained ice-cream fast food market sprouted in the 1990s, when international brands penetrated into the market and dominated the area over the next few years.

According to *Euromonitor*, ice-cream product is gaining popularity in PRC. The PRC ice-cream fast food market has grown from RMB953 million in 2006 to RMB2.6 billion in 2010, representing a CAGR of 28.4%. With an expected growth of 19.8% from 2011 to 2015, the PRC ice-cream fast food industry is expected to have the highest growth rate when compared to other segments within the fast food industry in PRC, according to *Euromonitor*. The chart below sets forth the historical and projected total sales of the PRC ice-cream fast food industry from 2006 to 2015.

Total Sales of the PRC Ice-cream Fast Food Industry in 2006–2015E



Source: Euromonitor

Regional PRC Ice-cream Fast Food Markets

According to *Euromonitor*, the Beijing, Hebei and Liaoning chained ice-cream fast food markets have been growing at CAGRs of 26.2%, 29.1% and 29.8% respectively from 2006 to 2010. *Euromonitor* estimates that the Beijing, Hebei and Liaoning chained ice-cream fast food markets will continue to grow at CAGRs of 18.8%, 22.3% and 23.2% respectively from 2011 to 2015. The table below sets forth the historical and projected market sizes of chained ice-cream fast food in Beijing, Hebei and Liaoning from 2006 to 2015.

Market Sizes of Ice-Cream Fast Food in 2006-2015E

(RMB mm)	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Beijing	153.2	186.1	249.4	310.5	388.1	480.1	585.7	702.2	827.2	957.1
Hebei	9.6	11.9	16.0	20.7	26.7	34.2	42.7	52.6	63.8	76.5
Liaoning	31.3	39.0	53.0	68.5	88.8	114.1	143.2	178.2	218.5	262.8

Competitive Landscape

The food and beverage industry in PRC is highly competitive. As the disposable income per capita in PRC continues to rise, the Target Group's management believes that consumers tend to consider various factors including food quality, price-to-value, branding, food safety and hygiene, uniqueness and variety of products.

According to *Euromonitor*, the Target Group is one of the top five quick service restaurant chains in PRC serving Asian fast food and one of the top five ice-cream quick service restaurant chains in PRC based on number of stores as at December 31,

2010. In addition, the Target Group is also one of the top 5 quick service restaurant chain operators in Beijing, Shenyang and Dalian in terms of number of stores as at September 30, 2011.

ABOUT THIS SECTION

General

This "Industry Overview" section contains information extracted from the commissioned *Euromonitor* report dated December 2011 prepared by *Euromonitor* for the purposes of preparing this circular. The Company agreed to pay a total of US$25,500 to *Euromonitor* for the preparation and use of the *Euromonitor* Report, which covers market analysis assessing the potential of the Asian fast food and ice-cream fast food industry in China as a whole and the Beijing, Hebei and Liaoning provinces, as well as identifying the leading Asian fast food and ice-cream fast food players in Beijing, Dalian and Shenyang.

Research Methodology

Euromonitor primarily undertook top-down central research with bottom-up intelligence to present a more comprehensive and accurate picture of the fast food market in specified provinces and cities.

Secondary Research

1. Syndicated Intelligence

Euromonitor began with an assessment of as much relevant background information as is publicly available through sources covering:

- Authority statistics, reports and/or databases (e.g. China National Statistics Yearbook), etc.
- Trade associations and other semi-official sources, such as the China Cuisine Association.
- Independent analysts' and research group's reports.
- *Euromonitor* Passport data. For this project, national market sizes and rankings are all from Passport data.

Furthermore, *Euromonitor* would reconcile these sources against any existing information/knowledge from the the Target Group.

2. Company research

Some limited background information may be available from competitive company profiles. Where relevant, corporate intelligence would draw on sources such as annual reports and accounts (as available) published by major players.

In addition, browsing company websites to explore their product/brand portfolios has provided additional information.

Primary Research

Euromonitor's trade interviews collect both quantitative and qualitative information to build datasets and generate thoughts, opinions and insights. Euromonitor pays more attention to the quality of the trade interviews by digging information as deep as possible for each of the interviews.

To generate an industry consensus and provide perspective on the market size and growth for the fast food market, Asian fast food segment as well as ice-cream fast food segment, *Euromonitor* conducted trade interviews with multiple organizations such as: trade associations, fast food service operators and their suppliers. A reliable data set and valid conclusions are reached by independently building segment consensus.

Data validation & integrity assessment

Euromonitor used multiple secondary and primary sources to validate any data or information collected with no reliance on any single source. Furthermore, a test of each respondent's information and views against those of others is applied to ensure reliability and to eliminate bias from various sources.

Projection

Specifically for ensuring forecasting accuracy, *Euromonitor* adopted its standard practice of both quantitative as well as qualitative forecasting in terms of the market size, growth trends, etc, on the basis of a comprehensive and in-depth review of the market development history, and a cross check with established government/industry figures, trade interviews, and statistical analysis tools where possible.

About *Euromonitor*

Euromonitor International Limited is a private company founded in 1972. *Euromonitor* is one of the world's leading business information publishers and market research consultancies, with offices in London (HQ), Chicago, Singapore, Shanghai, Vilnius, Dubai, Cape Town, Santiago, Sydney and Tokyo.

As a dedicated and independent market research provider, specialized in tracking FMCG (fast moving consumer goods), industrial, service and B2B (business to business) markets, *Euromonitor* conducts global and in-country research across over 80 countries worldwide.

11.5 Regulatory Overview

PRC LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Currently, all of the Target Group's subsidiaries in PRC are wholly foreign-owned enterprises. The businesses operated by such subsidiaries in PRC are mainly related to food and beverage services. The principal and material laws and regulations relating to such businesses operated by the Target Group's subsidiaries in PRC are set out below:

Provisions on Foreign Investment

According to the Catalog for the Guidance of Foreign Investment Industries (外商投資產業指導目錄), as amended, food and beverage services and general food production and sales are classified as projects where foreign investments are allowed by the State.

The Law of Wholly Foreign-owned Enterprises of the PRC (中華人民共和國外資企業法) (the "**Law of Foreign-invested Enterprises**"), which was promulgated by the National People's Congress on April 12, 1986 and amended on October 31, 2000, forms the fundamental legal basis for Chinese government to supervise wholly foreign-owned enterprises. According to the Law of Wholly Foreign-owned Enterprises, in order to establish a foreign-invested enterprise, the investor must apply to the competent authority of foreign economy and trade under the State Council, currently, the Ministry of Commerce, or the organizations authorized by the State Council for approval. In the event of a split, merger or other major events of changes, such event must be reported to the examination and approval authorities for approval, and registered with the administrative authority of industry and commerce. The foreign investor may remit overseas lawful profits, other lawful income and funds following the liquidation of the enterprise earned from the foreign-invested enterprise.

The Implementation Rules for the Law of Wholly Foreign-owned Enterprises of the PRC (中華人民共和國外資企業法實施細則) were formulated in accordance with the Law of Wholly Foreign-owned Enterprises, as amended on April 12, 2001. According to the detailed implementation rules, a foreign-invested enterprise shall make contributions to reserve funds from its profits at a rate of no less than 10% after income tax payment. When the accumulated total amount of contributing reserve funds is equal to 50% of the registered capital, no further contributions may be made. A foreign-invested enterprise shall not distribute any profits until any losses from prior fiscal years have been offset.

Provisions on Food and Beverage Operations

General Overview of Food Safety Supervision in PRC

On February 28, 2009, the Standing Committee of the National People's Congress adopted legislation of Food Safety Law of the People's Republic of China (中華人民共和國食品安全法), or Food Safety Law, which became effective from June 1, 2009, and repealed the pervious Food Hygiene Law promulgated in 1989. Under the new food safety supervision and management system, a food safety risk monitoring and assessment mechanism is established to monitor the foodborne diseases, food pollutions or harmful ingredient contained in food to secure food safety. Additionally, entities or individuals engaging in the food production and operation business shall comply with a state compulsory food safety standard and all other related requirement in respect of food safety supervision as stipulated under the Food Safety Law. Furthermore, pursuant to the Food Safety Law, food production and operation operators in PRC are subject to certain licensing requirements of various governing authorities, depending upon the different categories of food business provided by such entities. In accordance with the current licensing mechanism, i) food production license shall be obtained by entities engaging in food production business, and the quality supervision authorities of the State Council shall be responsible for management of such business; ii) food distribution license shall be obtained by entities engaging in food distribution business and the State Administration for Commerce and Industry and its local counterparts shall be responsible for management thereof; and iii) food and beverage services license shall be obtained by entities providing food and beverage services and the State Food And Drug Administration and its local counterparts shall be responsible for management and supervision thereof.

In cooperation with the implementation of the Food Safety Law, on July 20, 2009, the State Council promulgated the Implementing Regulations for the Food Safety Law of the People's Republic of China (中華人民共和國食品安全法實施條例) which details the governing principles provided in the Food Safety Law and stipulates duties and responsibilities of various authorities in food safety management and supervision system.

Food and Beverage Services Supervision

To further regulate the catering services, on March 4, 2010, the Ministry of Health promulgated Measures for the Supervision and Administration of Food Safety in Food and Beverage Services (餐飲服務食品安全監督管理辦法), or Supervision and Administration Measures, which sets out the regime regulating the food and beverage services business. Under the current regime, food and beverage services license shall be obtained by such service providers. Furthermore such providers shall undertake the food safety responsibilities for their catering service, establish and improve a safety management system, form an employee management system and comply with all other requirements as stipulated under the Supervision and Administration Measures.

In order to provide detailed rules in respect of the application procedure of the food and beverage services license, the Administrative Measures for the Licensing of Food and Beverage Services (餐飲服務許可管理辦法), or the Licensing Measures, were issued by the Ministry of Health on March 4, 2010 which spell out the conditions, documentation required and procedures for the application for the food and beverage services license and specify the requirements on usage of the license and the code of conduct that such service providers must comply with. According to the Licensing

Measures, a food and beverage services license shall be valid for three years and if such service provider renders food and beverage services at different places or venues, it shall apply for a food and beverage service license for each of these places respectively.

Provisions on Liquor Circulation

On November 7, 2005, the Ministry of Commerce promulgated the Measures for the Administration of Liquor Circulation (酒類流通管理辦法), or the Liquor Circulation Measures, which came into effect on January 1, 2006 and formed the important legal basis for the supervision and management of liquor circulation in PRC. Under the current administration system, the Ministry of Commerce shall be responsible for the supervision and administration of the liquor circulation in the PRC. Liquor business operators, including individuals or entities engaging in the liquor wholesale or retail business shall, within 60 days upon obtaining a business license, make the archival filing and registration formalities with 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. Furthermore, in accordance with the Liquor Circulation Measures, liquor operators are prohibited from selling liquors to juveniles and shall indicate such notice of prohibition in a noticeable position in its business place.

Provisions on Taxation

Enterprise Income Tax

Before January 1, 2008, the enterprise income tax of foreign-invested enterprises was governed by the Income Tax Law of the PRC of Foreign-invested Enterprises and Foreign Enterprises (中華人民共和國外商投資企業所得稅法) (the "**Income Tax Law of Foreign-invested Enterprises and Foreign Enterprises**"), and a tax rate of 30% in respect of the taxable income was applied. The local income tax was computed on the basis of taxable income at the rate of 3%. On January 1, 2008, the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) came into force and the Income Tax Law of Foreign-invested Enterprises and Foreign Enterprises were repealed at the same time. Income derived from PRC by enterprises or other organizations shall be levied enterprise income tax at the rate of 25%.

Business Tax

The business tax of foreign-invested enterprises was governed by the Provisional Regulations on Business Tax of the PRC (中華人民共和國營業稅暫行條例), which came into effect from January 1, 1994, and was amended on November 10, 2008. The amendment came into effect from January 1, 2009. According to the provisional regulations, enterprises in service industry shall be subject to business tax at the rate of 5% on their turnover.

Value-added Tax

The value-added tax of foreign-invested enterprises was governed by the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值税暫行條例), which came into effect from January 1, 1994, and was amended on November 10, 2008. The amendment came into effect from January 1, 2009. Under the provisional regulations, value-added tax is payable on sale or import of goods and provision of processing, repair and labor replacement services in PRC. The value-added tax is generally levied at the rate of 17%, however, a tax rate of 13% is applicable to sale or import of certain categories of necessities. Exports are exempted from value-added tax.

Provisions on Foreign Exchange

The Foreign Exchange Administrative Regulations of the PRC (中華人民共和國外匯管理條例) (the "**Foreign Exchange Administrative Regulations**"), which were promulgated and implemented since April 1, 1996 and were amended with effect from August 5, 2008, form an important legal basis for the PRC authorities to supervise and regulate foreign exchange.

Under the Foreign Exchange Administrative Regulations, any foreign exchange payment from capital account shall, in accordance with provisions enacted by the foreign exchange administrative department under the State Council relating to foreign exchange payments and purchases, be made out of the payer's own foreign exchange funds on the strength of valid documents or be made with foreign exchange purchased from any financial institution engaged in foreign exchange settlement and sales business. Where an approval from the relevant foreign exchange administrative authority is required in accordance with the relevant provisions, the relevant approval formalities shall be completed before the foreign exchange payment is made. For foreign-invested enterprises wound up in accordance with relevant laws, the fund in Renminbi that belongs to the relevant foreign investor(s) after liquidation and taxation pursuant to relevant provisions may be used to purchase foreign exchange from any financial institution engaged in foreign exchange settlement and sales business for the purpose of remitting the same outside PRC.

Provisions on Fire Prevention

The Fire Prevention Law of the People's Republic of China (中華人民共和國消防法) (the "**Fire Prevention Law**"), which came into force on September 1, 1998, as amended on October 28, 2008 and effective from May 1, 2009, provides an important legal basis for the PRC authorities to supervise and regulate fire prevention.

Pursuant to the Fire Prevention Law and other relevant laws and regulations of PRC, the Ministry of Public Security is responsible for the supervision and administration of fire prevention throughout the State. And local public security departments at county level or above shall be responsible for the supervision and administration of fire prevention work within their own regions of administration, and the fire prevention authority of the same ranking level as the public security department shall be responsible for implementation.

According to the Fire Prevention Law, the construction unit should file the fire prevention design documents of the place with a high density of people or other particular construction projects in large scale as prescribed by the Ministry of Public Security for examination and approval to the fire prevention authority of the public security department, and upon completion such projects must go through fire prevention inspection by the fire prevention authority of the public security department. Such projects will be prohibited from commencement of operation without inspection or failure to pass the inspection. For the other construction projects, the construction unit should file with the fire prevention authority of the public security department for record and selective examination, and such projects should cease to operate if failing to pass the examination. Prior to the commencement of using or operation of public gathering place, the construction unit or user is required to make an application to the fire prevention authority of the public security department at the county level or above at the place for a fire prevention inspection.

According to the Provisions for Fire Protection Supervision and Administration of Construction Projects (建設工程消防監督管理規定) issued by the Ministry of Public Security on April 30, 2009 and effective on May 1, 2009, hotels, restaurants or shopping malls with a gross floor area exceeding 10,000 sq.m., restaurants equipped with entertainment functions with a gross floor area exceeding 500 sq.m. and single building with a gross floor area exceeding 40,000 sq.m. etc. are classified as the place with a high density of people or other particular construction projects as stipulated by the Fire Prevention Law.

Under the Fire Prevention Law, where a construction project has been put into use without passing the fire prevention inspection or does not cease to operate when it failed to pass the selective examination, or where public gathering place is put into use or operation without being inspected for fire prevention or failed to satisfy the fire prevention requirements after inspection, an order to cease usage or production or operation may be made and a fine of RMB30,000 to RMB300,000 may be imposed by a competent authority.

Provisions on Environmental Protection

In PRC, the legal framework governing environmental protection was set up in the Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the "**Environmental Protection Law**"), which was promulgated and came into force on December 26, 1989.

According to the Environmental Protection Law and other relevant laws and regulations of PRC, the Ministry of Environmental Protection exercises uniform supervisory administration of environmental protection issues, while local administrative departments for environmental protection at county level or above exercise uniform supervisory administration of environmental protection issues within their own territories of jurisdiction.

According to the Environmental Protection Law, the Environment Impact Assessment Law of the PRC (中華人民共和國環境影響評價法) promulgated by the Standing Committee of the National People's Congress and came into force on September 1, 2003, and the Regulations on Environmental Protection Administration of Construction Projects (建設項目環境保護管理條例) promulgated by the State Council and came into force on November 18, 1998 and the Administrative Measures for Environmental Protection Inspection of Completed Construction Projects (建設項目竣工環境保護驗收管理辦法) promulgated by the former State Administration for Environmental Protection and came into effect on February 1, 2002, the construction unit should file the environment impact assessment document of the construction project with the competent environmental protection administration department for approval during the feasibility study step of the construction project or before commencing construction of the project, if the environment impact assessment document has not been examined or approved after examination, the construction should not be approved by the examination and approval authority of the project, and the construction unit should not commence construction. Besides, the ancillary installations for the environmental protection in construction projects must be designed, built and commenced operation together with the main body of the project. Upon completion of the construction project, the construction unit should file an application with the original approving environmental protection administration department that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for inspection of completed construction of ancillary environmental protection facilities required by the said construction project. The inspection for completed construction of environmental protection facilities shall be carried out concurrently with the inspection for completed construction of the main body of the project, and the said construction project may only formally commence production or operation after passing the inspections.

11.6 Senior Management and Employees of the Target Group

SENIOR MANAGEMENT

Mr. Hung Ming Kei, Marvin

Mr. Hung Ming Kei, Marvin, aged 41, currently holds the position of the Chief Executive Officer of the Target Group and has been the General Manager of BJ Yoshinoya Fast Food since 2003.

As the Chief Executive Officer of the Target Group, Mr. Hung Ming Kei, Marvin is responsible for supervising the management of the Target Group, advising the board of directors of the Target Group on the development and promotion of the Franchise Business, formulating policies and planning recommendations to the board, overseeing the operation of the Target Group, and managing the human resources, finance and physical resources of the Target Group.

Mr. Hung Ming Kei, Marvin is the nephew of Mr. Hung Hak Hip, Peter, a non-executive Director and the Chairman of the Company and Ms. Hung Chiu Yee, a non-executive Director of the Company. Mr. Hung Ming Kei, Marvin currently holds various public positions, including member of the Beijing Municipal Committee of the Chinese People's Political Consultative Conference, Executive Committee Member of China Federation of Overseas Chinese Entrepreneurs, Vice President of Beijing Association of Enterprises with Foreign Investment, Vice President of Beijing Chinese Business Association, and Executive President of Beijing Youth Chamber of Commerce.

Mr. Hung Ming Kei, Marvin graduated from the University of Southern California in the United States of America in 1992 with a Bachelor's degree in Science majoring in Accounting, and obtained a Master's degree in Business Administration from China Europe International Business School in 2001. Mr. Hung Ming Kei, Marvin has approximately 20 years of experience in business management.

Mr. Hung Ming Kei, Marvin has not held any other directorships in any listed public companies in last three years. Furthermore, save as disclosed in the biographical details above, Mr. Hung Ming Kei, Marvin does not have any relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company and there are no other matters concerning Mr. Hung Ming Kei, Marvin that need to be brought to the attention of the Shareholders nor any information to be disclosed pursuant to the requirements of Rule 13.51(2)(h)–(v) of the Listing Rules. As at the Latest Practicable Date, Mr. Hung Ming Kei, Marvin has interest in 104,163 Shares of the Company and in warrants carrying rights to acquire 20,832 new Shares at an exercise price of HK$0.20 per Share within the meaning of Part XV of the SFO. The remuneration of Mr. Hung Ming Kei, Marvin will be announced once his remuneration has been determined by the remuneration committee of the Company.

Upon Completion, the Company will publish an announcement setting out further biographical details of Mr. Hung Ming Kei, Marvin in compliance with the Listing Rules and the SFO regarding his appointment.

Mr. Guo Peilian

Mr. Guo Peilian, aged 43, is currently the executive vice president of the Target Group. He is mainly responsible for the management, the operation and the training of the employees of the PRC Operating Companies in Northern China and the marketing of the Franchise Business in Northern China. Mr. Guo has over 18 years of experience in restaurant franchise and chain operations and has played a vital role in the development of the Target Group. Mr. Guo joined one of the Seller Group Companies as a manager of the procurement and marketing departments in April 1993. He then held various positions in certain Seller Group Companies. He was the general manager of Dalian Hexing Fast Food from March 1997 to April 2006 and the general manager of Liaoning Hop Hing from May 2001 to April 2006. He was a director and the general manager of both companies between April 2006 to February 2008. Mr. Guo obtained a bachelor's degree in agriculture, majoring in gardening, from the Inner Mongolia Agricultural University (內蒙古農業大學) in 1990.

EMPLOYEES

As of October 31, 2011, the Target Group had a total of approximately 8,000 staff (excluding the staff under entrustment contracts) in PRC. Remuneration packages and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the staff. The Target Group's PRC subsidiaries participate in various statutory employee benefit plans maintained by municipal and provincial governments, including housing, pension, medical and unemployment benefit plans in accordance with relevant PRC regulations, and contribute to these plans at specified percentages of the salaries, bonuses and allowances paid to their employees based on applicable local government requirements.

11.7 Financial Information and Management Discussion and Analysis of the Target Group

OVERVIEW

The Target Group is a leading quick service restaurant chain operator in PRC, based on the number of stores as at September 30, 2011 according to *Euromonitor*. The Target is an investment holding company of a group of companies that owns the rights to operate the Franchise Business in the Franchise Regions.

The first Franchise Store was opened in Beijing in 1992. As of September 30, 2011, the Target Group operated the Franchise Business with over 200 Yoshinoya stores in the cities of Beijing, Tianjin, Shijiazhuang, Tangshan, Langfang, Handan, Shenyang, Dalian, HuHeHaoTe and Harbin in the Franchise Regions, and over 100 Dairy Queen stores in the cities of Beijing, Tianjin, Shijiazhuang, Langfang, Shenyang, Dalian and HuHeHaoTe in the Franchise Regions. The Target Group's Yoshinoya stores offer a variety of meals, principally the rice bowl products, while its Dairy Queen stores offer a range of ice-cream cakes, frozen treats and beverages, including the "Blizzard" treats. In addition, the Target Group operates 6 distribution centers in Beijing, Dalian, Shenyang, Harbin, Tianjin and HuHeHaoTe, which were primarily established to store, process and repackage food to be distributed to the Franchise Stores. Over the years, through the provision of high quality food and services by experienced and well-trained employees, the Target Group has maintained its reputation to deliver high quality food with excellent taste in a speedy manner, at an affordable price and in a cosy environment in the Franchise Regions. The appeal of the Target Group's core products is demonstrated by the successful expansion of the Franchise Stores across the Franchise Regions.

BASIS OF PRESENTATION

The Target Group's financial information has been prepared in accordance with HKFRS (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. The Target Group's financial information has been prepared under the historical cost convention, except for securities at fair value through profit or loss which have been measured at fair value. For the purpose of the preparation of the financial information for inclusion in this circular, the management of the Target Group considered to follow the presentation currency of the Company. Therefore, the Target Group's financial information is presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The companies now comprising the Target Group underwent the Reorganization in December 2011 to rationalize the existing group structure for the purpose of the Proposed Acquisition by the Group. The Target Group's financial information has been prepared in accordance with the principles of merger accounting as set out in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, as if the Reorganization had been completed at the beginning of the relevant periods because the acquisition of the companies except for Hung's China (Beijing) Limited and its subsidiary, Amazing Limited, in the Reorganization by the Group were regarded as a business combination under common control. The combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Target Group for the relevant periods include the results and cash flows of all companies now comprising the Target Group from the earliest date presented or since the dates when the subsidiaries first came under the common control of the controlling shareholder, where this is a shorter period. The combined statements of financial position of the Target Group as of December 31, 2008, 2009 and 2010 and June 30, 2011 have been prepared to present the assets and liabilities of the Target Group using the existing carrying values from the controlling shareholder perspective. No adjustments are made to reflect fair values, or recognize any new assets or liabilities as a result of the Reorganization. Equity interests in subsidiaries and/or business held by parties other than the controlling shareholder prior to the Reorganization are presented as non-controlling interests in equity in applying the principles of merger accounting.

SIGNIFICANT FACTORS AFFECTING THE TARGET GROUP'S RESULTS OF OPERATIONS

The following factors have had and will continue to have a significant impact on the Target Group's results of operations and financial condition.

Growth in the PRC economy and fast food industry

The Target Group conducts all of its operations in PRC. Economic growth in PRC therefore has a direct impact on virtually all aspects of its operations, including:

- the level of demand for its food and beverage products;
- the availability and prices of its food and beverage products; and
- the level of its operating expenses.

PRC has experienced significant economic growth in recent years. The fast food industry in PRC is benefiting from compelling industry fundamentals such as rapid economic growth, urbanization, and increasing disposable income. According to *Euromonitor*, the PRC fast food industry has grown rapidly at a CAGR of 14.9% from RMB313 billion in 2006 to RMB546 billion in 2010 and is expected to grow at a CAGR of 10.7% from 2011 to reach RMB938 billion in 2015. Among different types of fast food in PRC, Asian cuisine is the most preferred, constituting approximately 88% of the overall fast food industry in PRC in terms of sales in 2010. At the same time, ice-cream product is also gaining popularity in PRC. With an expected CAGR of 19.8% from 2011 to 2015, ice-cream fast food is expected to have the highest growth rate than the other segments within the fast food industry in PRC, according to *Euromonitor*. The Target Group has achieved a faster CAGR of 25.9% in revenue when compared to the overall fast food industry CAGR of 13.5% from 2008 to 2010. The Target Group's management believes that the continuing growth of the PRC economy and the fast food industry in PRC will have a positive impact on the Target Group's business prospects.

Number of Franchise Stores in operation

The Target Group generates substantially all of its revenue from the sale of food and beverage in its Franchise Stores. Food and beverage sales are affected to a significant extent by the number of stores that the Target Group has in operation and the number of total operating days of its stores, which are in turn affected by the Target Group's store opening and closing. New stores have contributed substantially to the Target Group's revenue growth in the past. The table below shows the number of Franchise Stores in operation as of the dates indicated:

	As of December 31,			**As of June 30,**	**As of September 30,**
Number of Franchise Stores	**2008**	**2009**	**2010**	**2011**	**2011**
Yoshinoya Franchise Business:					
Beijing-Tianjin-Hebei metropolitan region[(1)]	85	107	131	143	160
Northeast China and Inner Mongolia[(2)]	31	39	45	47	48
Subtotal	**116**	**146**	**176**	**190**	**208**
Dairy Queen Franchise Business:					
Beijing-Tianjin-Hebei metropolitan region[(1)]	55	64	82	84	86
Northeast China and Inner Mongolia[(2)]	17	16	20	20	20
Subtotal	**72**	**80**	**102**	**104**	**106**
Total:	**188**	**226**	**278**	**294**	**314**

(1) Includes Beijing, Tianjin, Shijiazhuang, Tangshan, Langfang and Handan.

(2) Include Shenyang, Dalian, HuHeHaoTe and Harbin.

The tables below show the breakdown between Franchise Stores in operation throughout each period indicated, Franchise Stores newly opened and Franchise Stores closed during each period, by number of stores and by revenue:

	Year ended December 31, 2008		2009		2010		Six months ended June 30, 2010		2011	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Stores in operation throughout the period	151	78.2%	185	80.8%	218	76.2%	225	86.5%	274	92.0%
Newly added stores during the period	37	19.2%	41	17.9%	60	21.0%	32	12.3%	20	6.7%
Stores closed during the period	5	2.6%	3	1.3%	8	2.8%	3	1.2%	4	1.3%
Total stores existed during the period	**193**	**100.0%**	**229**	**100.0%**	**286**	**100.0%**	**260**	**100.0%**	**298**	**100.0%**

	Year ended December 31, 2008		2009		2010		Six months ended June 30, 2010		2011	
	Revenue *(HK$'000)*	% of total	Revenue *(HK$'000)*	% of total	Revenue *(HK$'000)*	% of total	Revenue *(HK$'000)*	% of total	Revenue *(HK$'000)*	% of total
Stores in operation throughout the period	709,377	91.5%	871,215	91.3%	1,108,179	89.9%	530,509	94.5%	723,755	97.4%
Newly added stores during the period	60,022	7.7%	78,072	8.2%	112,189	9.1%	29,279	5.2%	15,960	2.1%
Stores closed during the period	6,390	0.8%	5,274	0.5%	12,954	1.0%	1,696	0.3%	3,402	0.5%
Total	**775,789**	**100.0%**	**954,561**	**100.0%**	**1,233,322**	**100.0%**	**561,484**	**100.0%**	**743,117**	**100.0%**

The Target Group's stores incur various costs and expenses before they open, and newly opened stores typically incur materially greater operating costs during the first few months of their operations. Therefore, opening new stores may temporarily lower results of operations on a per store basis, and the proportion of new stores the Target Group has in operation during any period may affect its overall results of operations.

The Target Group plans to further penetrate into its existing markets through new store openings in cities where it currently has operations as well as expand into selected regions. The Target Group closed some of its stores in the past primarily due to relocation or major renovation of the stores.

Same-store sales

The Target Group believes that same-store sales is an important benchmark of its operations. The Target Group defines "same stores" in comparable periods as stores that were generally open throughout the periods under comparison, including stores that were temporarily closed for less than 15 days during the comparison periods due to minor renovation. For example, the Target Group's same stores for the years 2009 and 2010 are stores that were generally open throughout both 2009 and 2010.

The table below shows the Target Group's same-store sales for the Yoshinoya Franchise Business for the period indicated:

Yoshinoya Franchise Business	Year ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2009	Year ended December 31, 2010	Six months ended June 30, 2010	Six months ended June 30, 2011
Number of same stores	90	90	115	115	146	146
Revenue for same stores *(HK$'000)*	605,516	608,619	746,400	820,627	464,194	547,556
Daily average revenue per same store *(HK$)*	18,382	18,527	17,782	19,550	17,566	20,720
Percentage increase of daily average revenue for same stores during comparison periods		0.8%		9.9%		18.0%

The Target Group's same-store sales for the Yoshinoya Franchise Business grew in the three years ended December 31, 2010 and the six months ended June 30, 2011, while the growth rate changed from period to period. Same-store sales experienced only minor growth from 2008 to 2009 primarily due to the impact of the global financial crisis that unfolded in the second half of 2008 and continued into 2009 and incidents of avian flu that occurred in PRC in 2009 which adversely affected chicken bowl sales. Same-store sales grew by 9.9% from 2009 to 2010 primarily due to PRC's economic recovery from the impact of the global financial crisis, which increased the transaction volume, and due to adjustments to menu prices, which increased average spending per transaction. The daily average revenue per same store for 2009 and the first half of 2010 was slower than other financial periods primarily due to the global financial crisis that unfolded in the second half of 2008 and the incidents of avian flu that occurred in PRC in 2009. The two events continued to affect the daily average revenue per same store for the first half of 2010. Same-store sales grew by 18.0% from the six months ended June 30, 2010 in comparison to the corresponding period in 2011 primarily due to the Target Group's continued innovation and execution of various initiatives in product improvement, delivery service, day time expansion and to a lesser extent due to adjustment to menu prices which increased average spending per transaction.

The table below shows the Target Group's same-store sales for the Dairy Queen Franchise Business for the period indicated:

Dairy Queen Franchise Business	Year ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2009	Year ended December 31, 2010	Six months ended June 30, 2010	Six months ended June 30, 2011
Number of same stores	61	61	70	70	79	79
Revenue for same stores *(HK$'000)*	103,861	111,636	124,815	125,745	66,315	72,434
Daily average revenue per same store *(HK$)*	4,652	5,014	4,885	4,922	4,638	5,066
Percentage increase of daily average revenue for same stores during comparison periods		7.8%		0.7%		9.2%

The Target Group's same-store sales for the Dairy Queen Franchise Business grew in the three years ended December 31, 2010 and the six months ended June 30, 2011, while the growth rate changed from period to period. Same-store sales grew by 7.8% from 2008 to 2009 primarily driven by increase in the transaction volume and to a lesser extent by increase in average spending per transaction. Same-store sales experienced only minor growth from 2009 to 2010 primarily due to a slower recovery of the market for premium desserts as they are viewed as luxury goods. Same-store sales grew by 9.2% from the six months ended June 30, 2010 to the corresponding period in 2011 primarily driven by increase in transaction volume and to a lesser extent by increase in average spending per transaction.

The table below shows the Target Group's overall same-store sales for the period indicated:

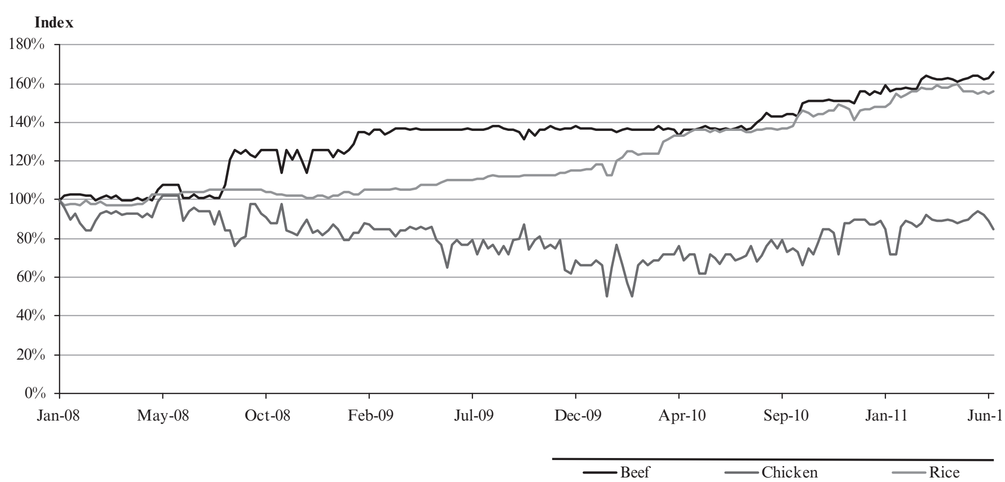
Overall	Year ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2009	Year ended December 31, 2010	Six months ended June 30, 2010	Six months ended June 30, 2011
Number of same stores	151	151	185	185	225	225
Revenue for same stores *(HK$'000)*	709,377	720,255	871,215	946,372	530,509	619,990
Daily average revenue per same store *(HK$)*	12,836	13,068	12,902	14,015	13,027	15,224
Percentage increase of daily average revenue for same stores during comparison periods		1.8%		8.6%		16.9%

For the three years ended December 31, 2010 and the six months ended June 30, 2011, the time period required for payback of a store's capital investment is approximately 2 years of store operation which has been consistent with the guideline adopted by the Target Group regarding the opening of new stores.

Direct cost of stocks sold

Direct cost of stocks sold consists of all costs of food ingredients used in the Target Group's operations which include beef and chicken, other meats, rice, frozen and processed vegetables, milk and other dairy products, seasoning and other dried foods and beverages. The Target Group purchases beef and chicken from local suppliers. There are ongoing arrangements with approximately four to six suppliers in PRC who have passed strict national hygiene and quality control standards and are familiar with the operational requirements of the Target Group. The Target Group purchases milk and other dairy products imported from New Zealand from third party suppliers. The price and supply of food ingredients are subject to a number of factors that are beyond the control of the Target Group, such as quality, availability and demand. The direct cost of stocks sold and price fluctuations in food ingredients have a direct impact on the Target Group's gross profit, profit before tax and profit for the period.

The following graph sets forth the approximate national average price of beef, chicken and rice from January 1, 2008 to June 30, 2011, which illustrates the price fluctuation and market price trends of the Target Group's major food ingredients, namely beef, chicken and rice. During the Track Record Period, the average price of beef and rice have generally been increasing. While the Target Group's gross margin slightly decreased from 59.9% in 2008 to 59.8% in 2009, the gross margin increased to 61.9% in 2010 since the Target Group strategically purchased beef in order to control the cost, as well as increased its menu price. During the six months ended June 30, 2011, the Target Group's margin decreased to 60.0% from 61.8% for the corresponding period in 2010 mainly due to the increase in costs of food ingredients, which was partially offset by an increase in menu price.



Source: Euromonitor

Based on the sensitivity analysis for the price of the major food ingredients, namely beef, chicken and rice, of the Target Group, it is estimated that for every 5% increase of the cost of the major food ingredients of the Target Group, the Target Group's gross margin will be negatively affected by 0.9%. The Target Group closely monitors and evaluates the fluctuation in costs of food ingredients and adopts various measures, including strategically purchasing large amount of beef from time to time when the price of beef is favorable, as well as adjusting menu prices, to reduce the impact of fluctuation in costs of food ingredients on the Target Group's results of operations.

Distribution costs, which include transportation and other logistics costs, are included in the direct cost of stocks sold and are allocated to the costs of the food ingredients being distributed on a pro rata basis. Direct cost of stocks sold was 40.1%, 40.2%, 38.1% and 40.0% of the Target Group's revenue in 2008, 2009, 2010 and the six months ended June 30, 2011, respectively. In order to minimize the risk of reliance upon a single or limited number of suppliers (except for dairy ingredients for producing ice-cream cakes, soft-served ice-cream and frozen treats from third party suppliers designated by the Franchisor), the Target Group chooses at least two suppliers for each kind of major food ingredient. The Target Group's supplier base is therefore relatively diverse. The total purchases from the Target Group's five largest suppliers in aggregate accounted for approximately 41.6%, 34.7%, 32.0% and 50.4% of its purchases in 2008, 2009, 2010 and the six months ended June 30, 2011, with its largest supplier accounting for 9.3%, 10.8%, 10.8% and 29.3% respectively.

Labor cost for store employees

The Franchise Store operations are highly service-oriented, and therefore the Target Group's success, to a considerable extent, depends on its ability to attract, motivate and retain a sufficient number of qualified employees, including store managers, cooks and the supporting staff at the distribution centers. The Target Group offers competitive wages and benefits to its store employees to retain skilled and talented employees. Store wages and related expenses include wages, salaries and bonuses paid to employees of the Target Group's stores, as well as pension scheme costs, social welfare and other benefits.

The salary level of employees in the consumer food services industry in China has generally been rising in recent years. In addition, when the Target Group opens new stores, it has to hire staff before stores are opened and thus it normally incurs wages for those stores before they begin to generate revenue. The Target Group's labor cost for store employees and distribution centers increased as a percentage of revenue from 8.8% in 2008 to 9.6% in 2009, 9.8% in 2010 and 10.2% in the first half of 2011. The Target Group expects its labor cost for store employees to continue to increase as inflation in China drives up wages and as it continues to increase the number of its stores.

The table below shows the total number of employees of the Target Group as of the dates indicated and total remuneration of the employees (excluding directors) for the periods indicated:

	As at and for the year ended December 31, 2008	2009	2010	As at and for the six months ended June 30, 2011
		(Approximately)		
Total Number of Employees (including both full-time and part-time employees)	4,244	4,712	5,863	7,278
Total Remuneration of the Employees (excluding directors) *(HK$'000)*	98,054	126,010	169,908	103,489

Store rental

The Target Group leases all of the properties where it operates its stores. Generally, most of the leases have initial lease terms of five to ten years, and may contain options to extend for another one to five years. Certain leases provide that rental charges should be the higher of (i) a fixed amount and (ii) an amount determined as a percentage of store sales as defined by the terms of the applicable lease agreement. Most of the lease agreements also include pre-determined future adjustments to rents payable under the lease agreements over the relevant rental periods. Property rental prices in China have generally been rising since 2007, particularly in the larger and more developed cities where a majority of the Target Group's stores are located. Rental expenses for stores and distribution centers of the Target Group were 12.3%, 12.9%, 13.0% and 12.8% of its revenue in 2008, 2009, 2010 and the six months ended June 30, 2011, respectively. With the expansion of the Target Group's operations, its rental expenses are expected to continue to increase in the future. The Target Group intends to continue to rely on leasing properties for its stores.

Seasonality

The Target Group's business is subject to seasonal fluctuations. Historically, the percentage of the Target Group's revenue derived from the second and third quarters of a calendar year has been higher than the first and fourth quarters of the year, reflecting higher frequency of dining out by the Target Group's customers in the summer than the first and fourth quarters of the year when the weather is cold. In addition, holidays, severe weather and similar conditions may also impact the Target

Group's revenue seasonally. Because of the seasonality of the Target Group's business, its results for any period of a year are not necessarily indicative of the results that may be achieved for the full year.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Target Group's accounting policies. In areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the combined financial statements, the Target Group's operating results and financial position are sensitive to the accounting methods, assumptions and estimates that are used in the preparation of the combined financial statements. Actual results may differ from these estimates under different assumptions and conditions. The selection of critical accounting policies, as well as the judgments and other uncertainties affecting the application of those critical accounting policies are factors to be considered when reviewing the Target Group's financial information. The Target Group believes the following accounting policies involve the most significant judgment and estimates used in the preparation of its financial statements.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Group recognizes such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the shorter of the lease terms and 33.33%
Furniture and fixtures	20% to 33.33%
Equipment	20% to 33.33%
Motor vehicles	10% to 25%

In determining the useful lives and residual values of items of property, plant and equipment, the Target Group has to consider various factors, such as technical of commercial obsolescence arising from changes or improvements in the production and provision of services, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Target Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at the end of each reporting period based on changes in circumstances.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year/period end.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the income statement in the year/period the asset is derecognized is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Target Group has to exercise judgment in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in preparing cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than stocks and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Stocks

Stocks are stated at the lower of cost and net realizable value after making due allowances for obsolete or slow moving items. Cost is determined on a weighted average basis. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting periods of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Deferred tax

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each of the reporting periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the reporting periods.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

DESCRIPTION OF SELECTED LINE ITEMS FROM THE TARGET GROUP'S COMBINED INCOME STATEMENTS

Revenue

The Target Group generates substantially all of its revenue from the sale of food and beverage products from its Franchise Stores. The Target Group recognizes revenue from its store operations when food and beverage products are sold to, and payments are tendered by, customers. The Target Group also sells gift certificates to its customers, which are recorded as prepayments from customers and classified as other payables in the Target Group's combined statements of financial position. Revenue from sale of gift certificates is recognized when such gift certificates are used or expired. In 2008, 2009 and the first half of 2010, the Target Group generated an immaterial portion of its revenue from the sale of food and beverage products from its two other stores with different brands from its Franchise Business and revenue from these two stores represented less than 0.3% of the Target Group's revenue in each of the relevant periods. These two stores have been excluded from the Target Group since the second half of 2010.

The table below sets forth the breakdown of the Target Group's revenue by different geographical areas for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2008		2009		2010		2010		2011	
	HK$'000	*% of Rev.*	*HK$'000*	*% of Rev.*	*HK$'000*	*% of Rev.*	*HK$'000*	*% of Rev.*	*HK$'000*	*% of Rev.*
Beijing — Tianjin — Hebei metropolitan region(1)	553,415	71.3%	706,737	74.0%	932,477	75.6%	422,583	75.3%	561,514	75.6%
Northeast China and Inner Mongolia(2)	222,374	28.7%	247,824	26.0%	300,845	24.4%	138,901	24.7%	181,603	24.4%
Total	775,789	100.0%	954,561	100.0%	1,233,322	100.0%	561,484	100.0%	743,117	100.0%

(1) Includes Beijing, Tianjin, Shijiazhuang, Tangshan, Langfang and Handan.

(2) Include Shenyang, Dalian and HuHeHaoTe.

The table below sets forth the breakdown of the Target Group's revenue by Franchise Business for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2008		2009		2010		2010		2011	
	HK$'000	*% of Rev.*	*HK$'000*	*% of Rev.*	*HK$'000*	*% of Rev.*	*HK$'000*	*% of Rev.*	*HK$'000*	*% of Rev.*
Yoshinoya	667,349	86.0%	824,602	86.4%	1,081,201	87.7%	489,520	87.2%	654,759	88.1%
Dairy Queen	108,440	14.0%	129,959	13.6%	152,121	12.3%	71,964	12.8%	88,358	11.9%
Total	775,789	100.0%	954,561	100.0%	1,233,322	100.0%	561,484	100.0%	743,117	100.0%

Direct cost of stocks sold

Direct cost of stocks sold consists of all costs of food ingredients used in the Target Group's operations which include beef and chicken, other meats, rice, frozen and processed vegetables, milk and other dairy products, seasoning and other dried foods and beverages. Distribution costs, which include transportation and other logistics costs, are included in the direct cost of stocks sold and are allocated to the costs of the food ingredients being distributed on a pro rata basis.

Margin analysis

	Year ended December 31, 2008	2009	2010	Six months ended June 30, 2010	2011
Gross margin	59.9%	59.8%	61.9%	61.8%	60.0%
Net margin	7.9%	8.5%	9.8%	9.1%	8.7%

Gross profit represents the Target Group's revenue less direct cost of stocks sold. Gross margin is equal to gross profit as a percentage of revenue. Net profit for the year/period represents the Target Group's revenue plus net other income and gains less direct cost of stocks sold and all other expenses, costs and taxation. Net margin is equal to total net profit for the year/period as a percentage of revenue.

Other income and gains, net

Net other income and gains mainly consist of interest income from the Target Group's bank deposits and loans to related companies, compensation (paid to the Target Group by landlords of certain shopping malls for closure of the malls that resulted in early termination of the Target Group's leases with the landlords), net exchange gains and losses, property rental income and certain marketing and promotional incentives provided by suppliers.

Selling expenses

The table below sets forth the breakdown of the Target Group's selling expenses in absolute amount and as a percentage of revenue for the periods indicated:

	Year ended Dec 31, 2008		2009		2010		Six months ended June 30, 2010		2011	
	HK$'000	*% of rev*	*HK$'000*	*% of rev*	*HK$'000*	*% of rev*	*HK$'000*	*% of rev*	*HK$'000*	*% of rev*
Rental	95,950	12.3%	123,412	12.9%	160,173	13.0%	75,348	13.4%	95,023	12.8%
Labor cost	68,810	8.8%	91,877	9.6%	121,378	9.8%	55,269	9.8%	75,747	10.2%
Depreciation	36,955	4.8%	47,391	5.0%	59,064	4.8%	31,508	5.6%	39,020	5.3%
Utility and fees payable to Franchisors	38,327	4.9%	49,814	5.2%	65,801	5.3%	30,441	5.4%	37,456	5.0%
Others	67,178	8.7%	75,918	7.9%	95,762	7.8%	42,073	7.5%	48,901	6.6%
Total	307,220	39.5%	388,412	40.6%	502,178	40.7%	234,639	41.7%	296,147	39.9%

The following is a description of each component of the selling expenses:

- *rental*, primarily consisting of expenses incurred for fixed and contingent rent of properties under operating leases for the Target Group's stores and distribution centers;
- *labor cost*, primarily consisting of wages, salaries, bonuses, pension scheme costs, social welfare and other employment benefits paid to, or provided for, employees working in the Target Group's stores and distribution centers;
- *depreciation*, primarily consisting of depreciation charges for leasehold improvements, furniture, fixtures and equipment at the Target Group's stores;
- *utilities and fees payable to the Franchisors*, primarily consisting of (i) utility expenses incurred for gas, electricity, water and heating utilities, and (ii) fees payable to the Franchisors pursuant to the franchise agreements of the Target Group; and
- *others*, primarily consisting of outsourcing fees (including the fees paid to the outsourcing companies for miscellaneous services, for examples, delivery service, call center service for delivery ordering service and IT service, etc.), advertising and promotion expenses, consumable expenses for paper napkins, cleaning consumable and other consumables used in the Target Group's stores and distribution centers, repair and maintenance costs for the Target Group's stores and distribution centers, and bank card transaction charges.

Administrative expenses

The following table sets forth the breakdown of the Target Group's administrative expenses in absolute amount and as a percentage of revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2008		2009		2010		2010		2011	
	HK$'000	*% of Rev.*	*HK$'000*	*% of Rev.*	*HK$'000*	*% of Rev.*	*HK$'000*	*% of Rev.*	*HK$'000*	*% of Rev.*
Labor cost	30,905	4.0%	35,873	3.8%	50,287	4.1%	23,260	4.1%	28,570	3.8%
Others	35,342	4.5%	31,698	3.3%	38,532	3.1%	15,346	2.8%	27,467	3.7%
Total	66,247	8.5%	67,571	7.1%	88,819	7.2%	38,606	6.9%	56,037	7.5%

The following is a description of each component of the administrative expenses:

- *labor cost,* primarily consisting of wages, salaries, bonuses, pension scheme costs, social welfare and other employment benefits paid to, or provided for the Target Group's financial, human resources, product development, marketing, and other general and administrative departments; and

- *others,* primarily consisting of expenses incurred for the rental of premises under operating leases for the Target Group's headquarters, utility expenses for the Target Group's headquarters, recruiting expenses at general and administrative departments, and other miscellaneous expenses.

Finance costs

Finance costs consist of interest on a bank loan wholly repayable within five years and loans from related companies wholly repayable within five years.

Income tax expense

The Target Group's operations in PRC are subject to a corporate income tax rate of 25.0% on taxable income arising in PRC. The Target Group's operations in Hong Kong are subject to a profits tax rate of 16.5% on estimated assessable profits arising in Hong Kong.

Under the PRC corporate income tax laws, dividends declared by a foreign-invested enterprise in PRC to its foreign investor, who is a non-resident enterprise, will be subject to a withholding tax of 10%, effective from January 1, 2008 and applicable to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Target Group, the applicable rates are 5% and 10%. The Target Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in PRC in respect of earnings generated from January 1, 2008. As of June 30, 2011, the Target Group recognized deferred tax liability for such withholding tax of HK$25.3 million in connection with the remaining earnings of its subsidiaries incorporated in China.

The Target Group's effective tax rate was 34.6%, 30.8%, 30.9% and 31.9% for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, respectively.

Non-controlling interests

The companies now comprising the Target Group underwent the Reorganization in December 2011 to rationalize the existing group structure for the purpose of the Proposed Acquisition by the Group. The results of the companies comprising the Target Group attributable to shareholders other than the controlling shareholder prior to the Reorganization were accounted for as non-controlling interests. Pursuant to the Reorganization, the entire interests in those companies comprising the Target Group held by non-controlling shareholders were transferred to the Target Group. In exchange, the non-controlling shareholders of those companies have become shareholders of the Seller. As such, there will be no further non-controlling interest in relation to the non-controlling shareholders.

RESULTS OF OPERATIONS

The table below sets forth data from the Target Group's combined income statements.

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	**778,041**	**955,925**	**1,234,212**	**562,374**	**743,117**
Direct cost of stocks sold	(312,030)	(384,428)	(470,611)	(215,000)	(297,495)
Gross profit	**466,011**	**571,497**	**763,601**	**347,374**	**445,622**
Other income and gains, net	1,838	1,885	3,328	975	2,412
Selling expenses	(307,220)	(388,412)	(502,178)	(234,639)	(296,147)
Administrative expenses	(66,247)	(67,571)	(88,819)	(38,606)	(56,037)
Finance costs	(141)	(217)	(1,577)	(253)	(904)
PROFIT BEFORE TAX	**94,241**	**117,182**	**174,355**	**74,851**	**94,946**
Income tax expense	(32,632)	(36,038)	(53,917)	(23,930)	(30,326)
PROFIT FOR THE YEAR/ PERIOD	**61,609**	**81,144**	**120,438**	**50,921**	**64,620**
Attributable to:					
Equity holder of the Target	48,475	68,439	98,613	41,605	52,236
Non-controlling interests	13,134	12,705	21,825	9,316	12,384
	61,609	81,144	120,438	50,921	64,620

Six months ended June 30, 2011 and 2010

Revenue

Revenue increased by 32.1% from HK$562.4 million for the six months ended June 30, 2010 to HK$743.1 million for the corresponding period in 2011. This increase was primarily due to:

- a HK$89.5 million increase in same-store sales from the six months ended June 30, 2010 to the corresponding period in 2011;
- a HK$75.2 million increase in revenue primarily contributed by 60 stores added in 2010; and
- a HK$16.0 million increase in revenue contributed by 20 new stores added during the six months ended June 30, 2011.

The Target Group increased the number of its Franchise Stores from 257 as of June 30, 2010 to 294 as of June 30, 2011.

Direct cost of stocks sold

Direct cost of stocks sold increased by 38.4% from HK$215.0 million for the six months ended June 30, 2010 to HK$297.5 million for the corresponding period in 2011. This increase was mainly due to increase in business scale as measured by total number of stores operated by the Target Group.

Gross profit and gross margin

Gross profit increased by 28.3% from HK$347.4 million for the six months ended June 30, 2010 to HK$445.6 million for the corresponding period in 2011 mainly due to increase in revenue. Gross profit margin decreased from 61.8% for the six months ended June 30, 2010 to 60.0% for the corresponding period in 2011 mainly due to increase in costs of food ingredients, which was partially offset by menu price increase.

Other income and gains, net

Net other income and gains increased by 147.4% from HK$1.0 million for the six months ended June 30, 2010 to HK$2.4 million for the corresponding period in 2011. This increase was primarily due to an increase in bank interest income and compensation (paid to the Target Group by landlords of certain shopping malls for closure of the malls that resulted in early termination of the Target Group's leases with the landlords), which was partially offset by a decrease in interest income from loans to related companies and exchange losses.

Selling expenses

Selling expenses increased by 26.2% from HK$234.6 million for the six months ended June 30, 2010 to HK$296.1 million for the corresponding period in 2011. This increase primarily reflected an increase in all major components, reflecting the Target Group's expanded operations in the six months ended June 30, 2011. Labor cost for employees of the Target Group's stores and distribution centers as a percentage of revenue increased from 9.8% for the six months ended June 30, 2010 to 10.2% for the corresponding period in 2011 primarily due to increase in average salaries and other compensation for the employees while the other components of selling expenses as a percentage of revenue decreased during the six months ended June 30, 2011. As a result, selling expenses as a percentage of revenue decreased from 41.7% for the six months ended June 30, 2010 to 39.9% for the corresponding period in 2011.

Administrative expenses

Administrative expenses increased by 45.2% from HK$38.6 million for the six months ended June 30, 2010 to HK$56.0 million for the corresponding period in 2011. This increase was primarily due to an increase in labor costs attributable to the Target Group's administrative function as it expanded its business operations and an increase in other administrative expenses including increase in legal and professional fees incurred in preparation for the Proposed Acquisition. Administrative expenses as a percentage of revenue increased from 6.9% for the six months ended June 30, 2010 to 7.5% for the corresponding period in 2011 primarily due to the increase in other administrative expenses.

Finance costs

Finance costs increased from HK$0.3 million for the six months ended June 30, 2010 to HK$0.9 million for the corresponding period in 2011. This increase was primarily due to an increase in interest on a bank loan from HK$0.1 million for the six months ended June 30, 2010 to HK$0.7 million for the corresponding period in 2011 driven by an increase in average interest rate.

Profit before tax

For the reasons above, profit before tax increased by 26.8% from HK$74.9 million for the six months ended June 30, 2010 to HK$94.9 million for the corresponding period in 2011.

Income tax expense

Income tax expense increased by 26.7% from HK$23.9 million for the six months ended June 30, 2010 to HK$30.3 million for the corresponding period in 2011 primarily reflecting increases in profit before tax during the same periods. The Target Group's overall effective tax rate slightly decreased from 32.0% in the six months ended June 30, 2010 to 31.9% in the corresponding period in 2011.

Profit for the period

For the reasons above, the Target Group's profit for the period increased by 26.9% from HK$50.9 million for the six months ended June 30, 2010 to HK$64.6 million for the corresponding period in 2011, and net margin for the period decreased from 9.1% for the six months ended June 30, 2010 to 8.7% for the corresponding period in 2011.

Years ended December 31, 2010 and 2009

Revenue

Revenue increased by 29.1% from HK$955.9 million in 2009 to HK$1,234.2 million in 2010. This increase was due to:

- a HK$75.2 million increase in same-store sales from 2009 to 2010;
- a HK$90.9 million increase in revenue primarily contributed by 41 stores added in 2009; and
- a HK$112.2 million increase in revenue contributed by 60 new stores added in 2010.

The Target Group increased the number of its Franchise Stores from 226 as of December 31, 2009 to 278 as of December 31, 2010.

Direct cost of stocks sold

Direct cost of stocks sold increased by 22.4% from HK$384.4 million in 2009 to HK$470.6 million in 2010. This increase was mainly due to increase in business scale as measured by total number of stores operated by the Target Group.

Gross profit and gross margin

Gross profit increased by 33.6% from HK$571.5 million in 2009 to HK$763.6 million in 2010 mainly due to increase in revenue. Gross margin increased from 59.8% in 2009 to 61.9% in 2010 mainly due to the strategic purchase of beef in order to control the cost of the food ingredient, and the increase in menu price.

Other income and gains, net

Net other income and gains increased by 76.6% from HK$1.9 million in 2009 to HK$3.3 million in 2010. This increase was primarily due to an increase in compensation (paid to the Target Group by landlords of certain shopping malls for closure of the malls that resulted in early termination of the Target Group's leases with the landlords), bank interest income, a smaller exchange loss and a gain on disposal of securities.

Selling expenses

Selling expenses increased by 29.3% from HK$388.4 million in 2009 to HK$502.2 million in 2010. This increase primarily reflected an increase in all major components, reflecting the Target Group's expanded operations in 2010. As a percentage of revenue, all major components of the selling expenses remained relatively stable in 2010 compared to 2009. Rental for the Target Group's stores and distribution centers, labor cost and utility and fees payable to Franchisors as a percentage of revenue slightly increased while depreciation and other selling expenses as a percentage of revenue slightly decreased. As a result, selling expenses as a percentage of revenue remained relatively stable from 40.6% in 2009 to 40.7% in 2010.

Administrative expenses

Administrative expenses increased by 31.4% from HK$67.6 million in 2009 to HK$88.8 million in 2010. This increase was primarily due to an increase in labor costs attributable to the Target Group's administrative function as it expanded its business operations and increase in average salaries and other compensation. Administrative expenses as a percentage of revenue slightly increased from 7.1% in 2009 to 7.2% in 2010 primarily due to increase in labor costs attributable to the Target Group's administrative function as a result of increase in average salaries and other compensation.

Finance costs

Finance costs increased from HK$0.2 million in 2009 to HK$1.6 million in 2010. This increase was primarily due to an increase in interest on a bank loan which was borrowed in the second half of 2009.

Profit before tax

For the reasons above, profit before tax increased by 48.8% from HK$117.2 million in 2009 to HK$174.4 million in 2010.

Income tax expense

Income tax expense increased by 49.6% from HK$36.0 million in 2009 to HK$53.9 million in 2010 primarily reflecting increases in profit before tax during the same periods. The Target Group's overall effective tax rate increased slightly from 30.8% in 2009 to 30.9% in 2010.

Profit for the year

For the reasons above, the Target Group's profit for the year increased by 48.4% from HK$81.1 million in 2009 to HK$120.4 million in 2010, and net margin for the year increased from 8.5% in 2009 to 9.8% in 2010.

Years ended December 31, 2009 and 2008

Revenue

Revenue increased by 22.9% from HK$778.0 million in 2008 to HK$955.9 million in 2009. This increase was due to:

- a HK$10.9 million increase in same-store sales from 2008 to 2009;
- a HK$88.9 million increase in revenue primarily contributed by 37 stores added in 2008; and
- a HK$78.1 million increase in revenue contributed by 41 new stores added in 2009.

The Target Group increased the number of its Franchise Stores from 188 as of December 31, 2008 to 226 as of December 31, 2009.

Direct cost of stocks sold

Direct cost of stocks sold increased by 23.2% from HK$312.0 million in 2008 to HK$384.4 million in 2009. This increase was mainly due to increase in business scale as measured by total number of Franchise Stores operated by the Target Group.

Gross profit and gross margin

Gross profit increased by 22.6% from HK$466.0 million in 2008 to HK$571.5 million in 2009 mainly due to increase in revenue. Gross margin slightly decreased from 59.9% in 2008 to 59.8% in 2009.

Other income and gains, net

Net other income and gains increased by 2.6% from HK$1.8 million in 2008 to HK$1.9 million in 2009. This increase was primarily due to an increase in compensation (paid to the Target Group by landlords of certain shopping malls for closure of the malls that resulted in early termination of the Target Group's leases with the landlords), bank interest income, interest income from loan to related companies and a smaller exchange loss.

Selling expenses

Selling expenses increased by 26.4% from HK$307.2 million in 2008 to HK$388.4 million in 2009. This increase primarily reflected an increase in all major components driven by the Target Group's expanded operations in 2009. Labor cost for employees of the Target Group's stores and distribution centers as a percentage of revenue increased from 8.8% in 2008 to 9.6% in 2009, rental expenses for the Target Group's stores and distribution centers as a percentage of revenue increased from 12.3% in 2008 to 12.9% in 2009, utilities and fees payable to Franchisors as a percentage of revenue increased from 4.9% in 2008 to 5.2% in 2009, depreciation expenses as a percentage of revenue slightly increased, while other selling expenses as a percentage of revenue decreased. As a result of the above, selling expenses as a percentage of revenue increased from 39.5% in 2008 to 40.6% in 2009.

Administrative expenses

Administrative expenses increased by 2.0% from HK$66.2 million in 2008 to HK$67.6 million in 2009. This increase was primarily due to an increase in labor costs attributable to the Target Group's administrative functions as it expanded its business operations. Administrative expenses as a percentage of revenue decreased from 8.5% in 2008 to 7.1% in 2009 primarily due to economies of scale resulting from expansion of the Target Group's business operations.

Finance costs

Finance costs increased from HK$0.1 million in 2008 to HK$0.2 million in 2009. This increase was primarily due to an increase in interest on loans from related companies driven by an increase in average interest rate.

Profit before tax

For the reasons above, profit before tax increased by 24.3% from HK$94.2 million in 2008 to HK$117.2 million in 2009.

Income tax expense

Income tax expense increased by 10.4% from HK$32.6 million in 2008 to HK$36.0 million in 2009 primarily reflecting increases in profit before tax during the same periods. The Target Group's overall effective tax rate decreased from 34.6% in 2008 to 30.8% in 2009, primarily due to less expense not deductable for tax and less tax losses not recognized in 2009 compared to 2008.

Profit for the year

For the reasons above, the Target Group's profit for the year increased by 31.7% from HK$61.6 million in 2008 to HK$81.1 million in 2009, and net margin for the year increased from 7.9% in 2008 to 8.5% in 2009.

DESCRIPTION OF SELECTED LINE ITEMS FROM THE TARGET GROUP'S COMBINED STATEMENTS OF FINANCIAL POSITION

Stocks

Stocks are stated at the lower of cost and net realizable value. Cost is determined using the weighted average basis. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. The following table sets out information on the Target Group's stocks balance and stocks turnover days as of the date indicated.

	As of and for the year ended December 31,			As of and for the six months ended
	2008	2009	2010	June 30, 2011
	(HK$'000, except turnover days)			
Stocks	34,257	53,019	53,894	104,192
Stocks turnover days[(1)]	30.8	41.4	41.5	48.1

(1) Average stocks is the stocks at the beginning of the period plus the stocks at the end of the period with the sum divided by two. Stocks turnover days equal the average stocks divided by direct cost of stocks sold multiplied by the number of days during the period.

The Target Group's stocks mainly comprises food ingredients used in its operations, including beef and chicken, other meats, rice, frozen and processed vegetables, milk and other dairy products, seasoning and other dried foods and beverages. The Target Group's stocks turnover days increased from 41.5 days in 2010 to 48.1 days in the six months ended June 30, 2011, primarily reflecting an increase in the Target Group's stocks resulting from the Target Group's strategic purchase of more beef to stock up in the six months ended June 30, 2011 in anticipation of increase in beef price. The Target Group's stocks turnover days remained stable from 41.4 days in 2009 to 41.5 days in 2010. The Target Group's stocks turnover days increased from 30.8 days in 2008 to 41.4 days in 2009, primarily reflecting an increase in the Target Group's stocks resulting from the Target Group's strategic purchase of more beef to stock up in 2009 in anticipation of increase in beef price. The Target Group expects to continue to strategically purchase large amount of beef from time to time when the price of beef is favorable so as to reduce the impact of fluctuation in beef price on the Target Group's results of operations.

Accounts receivables

The Target Group's trading terms with its customers are mainly on cash. The Target Group has certain stores located within shopping malls and some of these stores collect payments from its customers through the shopping malls' cashiers. Accounts receivables of the Target Group primarily consist of receivables from such shopping malls by whom there was no recent history of defaults.

Prepayments, deposits and other receivables

The Target Group's prepayments, deposits and other receivables consist primarily of rental deposits, prepayments to decorating and refurbishment contractors, and prepayments to suppliers. As of December 31, 2008, 2009 and 2010 and June 30, 2011, the current portion of the Target Group's prepayments, deposits and other receivables were HK$19.3 million, HK$26.4 million, HK$49.6 million and HK$36.1 million, respectively, and the non-current portion of rental deposit were HK$17.9 million, HK$19.9 million, HK$25.9 million and HK$27.0 million, respectively.

The current portion of the Target Group's prepayments, deposits and other receivables increased from HK$19.3 million as of December 31, 2008 to HK$26.4 million as of December 31, 2009 primarily due to increase in rental and utility deposits as a result of the increase in the number of the Target Group's new stores. The current portion of the Target Group's prepayments, deposits and other receivables increased from HK$26.4 million as of December 31, 2009 to HK$49.6 million as of December 31, 2010 primarily due to advance payment made in December 2010 for purchase of large amount of beef to stock up. The current portion of the Target Group's prepayments, deposits and other receivables decreased from HK$49.6 million as of December 31, 2010 to HK$36.1 million as of June 30, 2011 primarily due to decrease in advance payment for beef purchase as the Target Group did not stock up beef in June 2011. The increase in the non-current portion of rental deposit of the Target group was primarily due to increase in rental deposits as a result of the increase in the number of the Target Group's stores.

Accounts payable

The Target Group's accounts payable represents the purchase of food ingredients and beverages and were normally settled within three months after receipt of the invoice prior to 2011 and are normally settled within two months after receipt of the invoice starting from the first half of 2011. The Target Group's accounts payable turnover days decreased from 57.6 days in 2010 to 52.8 days in the six months ended June 30, 2011, primarily due to the standardization of the Target Group's credit term from 60-90 days in 2010 to 60 days in the first half of 2011. The Target Group's accounts payable turnover days remained relatively stable from 57.2 days in 2009 to 57.6 days in 2010. The Target Group's accounts payable turnover days increased slightly from 56.2 days in 2008 to 57.2 days in 2009.

The table below sets out an aging analysis of the Target Group's accounts payable as of the dates indicated.

	As of and for the year ended December 31,			As of and for the six months ended
	2008	**2009**	**2010**	**June 30, 2011**
	(HK$'000, except turnover days)			
Within three months	52,716	61,616	81,205	86,919
Three to six months	1,814	1,903	1,237	2,598
Six to twelve months	367	1,525	294	496
Over twelve months	194	343	403	254
Total	**55,091**	**65,387**	**83,139**	**90,267**
Accounts payable turnover days[(1)]	56.2	57.2	57.6	52.8

(1) Average accounts payable is the accounts payable at the beginning of the period and the accounts payable at the end of the period with the sum divided by two. Accounts payable turnover days equal the average accounts payable divided by direct cost of stocks sold multiplied by the number of days during the period.

The Target Group's accounts payable aging over one year primarily comprise quality assurance deposits from certain leasehold improvement contractors.

Other payables and accrued charges

The Target Group's other payables and accrued charges consist primarily of payroll, welfare and incentive compensation payables to the Target Group's employees, payables to its decorating and refurbishment contractors, payables in relation to purchase of property and equipment, and royalty payables to the Franchisors. The following table sets out, by principal category, the Target Group's other payables and accrued charges as of the dates indicated:

	As of December 31,			As of June 30,
	2008	**2009**	**2010**	**2011**
	(HK$'000)			
Other payables	30,612	32,189	40,265	43,219
Accrued charges	46,768	56,595	71,949	82,651
Total	**77,380**	**88,784**	**112,214**	**125,870**

Net current assets/(liabilities)

As of December 31, 2008, 2009 and 2010 and June 30, 2011, the Target Group had net current liabilities of HK$12.9 million as of December 31, 2008 and had net current assets of HK$35.9 million, HK$38.0 million and HK$105.8 million, respectively. The table below sets forth data from the Target Group's combined statements of financial position:

	As of December 31,			As of June 30,
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
CURRENT ASSETS				
Stocks	34,257	53,019	53,894	104,192
Accounts receivable	2,827	3,042	3,329	4,358
Securities at fair value through profit or loss	—	1,233	1,512	1,547
Prepayments, deposits and other receivables	19,299	26,371	49,563	36,089
Due from a director	1,036	1,683	—	—
Due from the immediate holding company	—	—	7,800	7,800
Due from related companies	17,542	60,709	32,908	37,115
Cash and cash equivalents	109,954	109,639	193,696	234,884
Total current assets	**184,915**	**255,696**	**342,702**	**425,985**
CURRENT LIABILITIES				
Accounts payable	(55,091)	(65,387)	(83,139)	(90,267)
Other payables and accrued charges	(77,380)	(88,784)	(112,214)	(125,870)
Due to related companies	(58,285)	(34,375)	(81,069)	(72,371)
Interest-bearing bank loan	—	(23,852)	(24,722)	(25,284)
Tax payable	(7,056)	(7,430)	(3,563)	(6,429)
Total current liabilities	**(197,812)**	**(219,828)**	**(304,707)**	**(320,221)**
NET CURRENT ASSETS/ (LIABILITIES)	**(12,897)**	**35,868**	**37,995**	**105,764**

LIQUIDITY AND CAPITAL RESOURCES

Overview

For the three years ended December 31, 2010 and six months ended June 30, 2011, the Target Group had met its working capital and cash requirements primarily through cash generated from operations and cash from bank facilities.

The Target Group's funding policy is to finance the business operations with internally generated cash and bank facilities. The Target Group's only bank borrowing is denominated in Renminbi. The Target Group does not have a foreign currency hedging policy.

Based on the above, the Target Group's directors believe that the Target Group will have sufficient funds for its present working capital requirements for at least the next 12 months from the date of this circular.

Cash Flows

The table below sets forth data from the Target Group's combined statements of cash flows:

	Year ended December 31,			Six months ended June 30,
	2008	**2009**	**2010**	**2011**
	HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*
NET CASH FLOWS FROM/ (USED IN):				
Operating Activities	94,666	64,299	281,034	84,680
Investing Activities	(111,788)	(74,308)	(97,707)	(94,204)
Financing Activities	(1,624)	19,882	(112,243)	(2,926)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(18,746)**	**9,873**	**71,084**	**(12,450)**
Cash and cash equivalents at beginning of the period	91,727	75,240	84,546	158,379
Effect of foreign exchange rates changes, net	2,259	(567)	2,749	2,266
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**75,240**	**84,546**	**158,379**	**148,195**

As of December 31, 2008, 2009, 2010 and June 30, 2011, the Target Group had HK\$75.2 million, HK\$84.5 million, HK\$158.4 million and HK\$148.2 million, respectively, in cash and cash equivalents as stated in the combined statements of cash flows. For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

Operating activities

Net cash flows from operating activities consisted primarily of the Target Group's profit before tax adjusted by non-cash items, such as depreciation, loss on disposal/ write-off of items of property, plant and equipment, further adjusted by changes in current assets and liabilities, such as stocks, accounts receivable, accounts payable and prepayments, deposits and other receivables, other payables and accrued charges and further for Hong Kong profit tax and PRC corporate income tax paid.

In the six months ended June 30, 2011, the Target Group's net cash flows from operating activities as stated in the combined statement of cash flows amounted to HK\$84.7 million, representing a profit before tax of HK\$94.9 million adjusted by (i) a HK\$40.8 million of depreciation, (ii) a HK\$13.7 million increase in other payables and accrued charges, and (iii) a HK\$12.3 million decrease in prepayments, deposits and other receivables, which were partially offset by (i) a HK$50.3 million increase in stocks, (ii) a HK$20.2 million of PRC tax paid, and (iii) a HK$8.7 million decrease in amounts due to related companies.

In 2010, the Target Group's net cash flows from operating activities as stated in the combined statement of cash flows amounted to HK$281.0 million, representing a profit before tax of HK$174.4 million adjusted by (i) a HK$74.8 million increase in amounts due to related companies, (ii) a HK$62.6 million of depreciation, (iii) a HK$23.8 million increase in other payables and accrued charges, and (iv) a HK$18.1 million increase in accounts payable, which were partially offset by (i) a HK$47.8 million of PRC tax paid, and (ii) a HK$29.3 million increase in prepayments, deposits and other receivables.

In 2009, the Target Group's net cash flows from operating activities as stated in the combined statement of cash flows amounted to HK$64.3 million, representing a profit before tax of HK$117.2 million adjusted by (i) a HK$50.3 million of depreciation, (ii) a HK$11.4 million increase in other payables and accrued charges, and (iii) a HK$10.3 million increase in accounts payable, which were partially offset by (i) a HK$43.2 million increase in amounts due from related companies, (ii) a HK$28.4 million of PRC tax paid, (iii) a HK$23.9 million decrease in amounts due to related companies, (iv) a HK$18.8 million increase in stocks, and (v) a HK$9.1 million increase in prepayments, deposits and other receivables.

In 2008, the Target Group's net cash flows from operating activities as stated in the combined statement of cash flows amounted to HK$94.7 million, representing a profit before tax of HK$94.2 million adjusted by (i) a HK$41.1 million of depreciation, (ii) a HK$20.3 million increase in other payables and accrued charges, and (iii) a HK$14.1 million increase in accounts payable, which were partially offset by (i) a HK$28.2 million of PRC tax paid, (ii) a HK$20.1 million of decrease in amounts due to related companies, (iii) a HK$15.9 million increase in stocks, and (iv) a HK$10.9 million increase in prepayments, deposits and other receivables.

Investing activities

Net cash flows used in investing activities primarily reflect changes in the Target Group's non-pledged time deposits with original maturity of more than three months when acquired, purchases of items of property, plant and equipment, and disposal of subsidiaries.

In the six months ended June 30, 2011, the Target Group's net cash flows used in investing activities amounted to HK$94.2 million, which primarily reflected an HK$51.4 million increase in non-pledged time deposits with original maturity of more than three months when acquired and a HK$42.8 million of purchases of items of property, plant and equipment for opening of new stores.

In 2010, the Target Group's net cash flows from investing activities amounted to HK$97.7 million, which primarily reflected a HK$89.2 million of purchases of items of property, plant and equipment for opening of new stores, a HK$10.2 million increase in non-pledged time deposits with original maturity of more than three months when acquired, and a HK$9.5 million of cash used in disposal of subsidiaries, which was partially offset by a HK$11.4 million decrease in an amount due from a related company.

In 2009, the Target Group's net cash flows used in investing activities amounted to HK$74.3 million, which primarily reflected a HK$82.7 million of purchases of items of property, plant and equipment for opening of new stores, which was partially offset by a HK$9.6 million decrease in non-pledged time deposits with original maturity of more than three months when acquired.

In 2008, the Target Group's net cash flows from investing activities amounted to HK$111.8 million, which reflected a HK$70.0 million of purchases of items of property, plant and equipment for opening of new stores, a HK$30.4 million increase in non-pledged time deposits with original maturity of more than three months when acquired, and a HK$11.4 million increase in an amount due from a related company.

Financing activities

Net cash flows from/(used in) financing activities primarily reflect the Target Group's loans from and repayment to non-controlling interests, interest paid, dividend paid, dividend paid to non-controlling interests and changes in interest-bearing bank loan.

In the six months ended June 30, 2011, the Target Group's net cash flows used in financing activities was HK$2.9 million, which primarily reflected a HK$2.6 million of loan repayment to non-controlling interests.

In 2010, the Target Group's net cash flows used in financing activities was HK$112.2 million, which primarily reflected a HK$100.2 million of dividends paid, and a HK$13.9 million of dividend paid to non-controlling interests.

In 2009, the Target Group's net cash flows from financing activities was HK$19.9 million, which primarily reflects a HK$23.9 million increase in interest-bearing bank loan, which was partially offset by a HK$3.8 million of dividend paid to non-controlling interest.

In 2008, the Target Group's net cash flows used in financing activities was HK$1.6 million, which primarily reflected a HK$1.2 million of dividend paid to non-controlling interests.

Capital expenditure and commitments

The Target Group incurred capital expenditure of approximately HK$42.8 million in the six months ended June 30, 2011, mainly related to leasehold improvement and purchase of equipment for opening of new stores. The Target Group incurred capital expenditure of approximately HK$89.2 million in 2010, mainly related to leasehold improvement and purchase of equipment for opening of new stores. The Target Group incurred capital expenditure of approximately HK$82.7 million in 2009, mainly related to leasehold improvement and purchase of equipment for opening of new stores. The Target Group incurred capital expenditure of approximately HK$70.0 million in 2008, mainly related to leasehold improvement and purchase of equipment for opening of new stores.

The Target Group did not have any capital commitment as of June 30, 2011.

Operating lease commitments

As of June 30, 2011, the Target Group had total future minimum lease payments under non-cancellable operating leases of HK$1,115.1 million falling due as follows:

Due date	**HK$ million**
July 1, 2011 to June 30, 2012	161.3
July 1, 2012 to June 30, 2016	497.9
On or after July 1, 2016	455.9
Total	1,115.1

In addition, the operating lease rentals for certain stores are based on the higher of (i) a fixed amount and (ii) a contingent amount determined as a percentage of store sales as defined by the terms of the applicable lease agreement. As the future sales of these stores could not be accurately determined, the relevant contingent rent has not been included above and only the minimum lease commitments have been included in the above table.

INDEBTEDNESS

As of June 30, 2011, the Target Group had only one interest-bearing bank loan of HK$25.3 million, which is unsecured; the Target Group's accounts payable amounted to HK$90.3 million; the Target Group's other payables and accrued charges amounted to HK$125.9 million; and the Target Group had amounts due to related parties of HK$72.4 million.

The Target Group's total interest-bearing bank loan amounted to nil, HK$23.9 million, HK$24.7 million and HK$25.3 million as of December 31, 2008, 2009 and 2010 and June 30, 2011, respectively.

The Target Group's gearing ratio (expressed as a percentage of interest-bearing bank loan over total equity) was 0%, 12.6%, 11.4% and 8.9% as of December 31, 2008, 2009 and 2010 and June 30, 2011, respectively.

CONTINGENCIES AND GUARANTEES

Except for the contingent rent payment obligations discussed under "— Liquidity and capital resources — Operating lease commitments" above, for the Track Record Period, the Target Group did not have any outstanding loan capital (issued or agreed to be issued), bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charge of assets or loans or acceptance credits or hire purchase commitments, finance lease commitments, guarantees, indemnities or other material contingent liabilities.

FINANCIAL RISK MANAGEMENT

The Target Group's principal financial instruments comprise cash and cash equivalents and interest-bearing bank loan. The Target Group has various other financial assets and liabilities such as accounts receivables, other receivables, accounts payable, other payables, accrued liabilities and balances with related parties.

The main risks arising from the Target Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The directors of the Target Group review and agree policies for managing each of these risks and they are summarized below.

Foreign currency risk

The Target Group's monetary assets, liabilities and transactions are principally denominated in Hong Kong dollars or Renminbi. Given that fluctuations between Renminbi and Hong Kong dollars are under the control of the PRC government, the foreign currency risk is considered not material and the Target Group therefore does not have a foreign currency hedging policy. However, the management monitors the Target Group's foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arise.

Credit risk

Since the Target Group trades only with recognized and creditworthy third parties, there is no requirement for collateral.

The credit risk of the Target Group's other financial assets, which comprise accounts receivable, other receivables, deposits, amounts due from related parties and cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

The Target Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Target Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the financial liabilities of the Target Group and the Target as at the end of each relevant periods, based on the contractual undiscounted payments, was less than one year.

MATERIAL ACQUISITIONS AND DISPOSALS BY THE TARGET GROUP

The following summarizes the major acquisitions and disposals by the Target Group for the three years ended December 31, 2010 and the six months ended June 30, 2011.

On June 18, 2010, the Target Group disposed of its equity interest in Advance Move International Limited and its subsidiaries, Canary Glory Limited and its subsidiaries, Onknight Holdings Limited and its subsidiary, Hop Hing Fast Food Franchise Holdings Limited and Yoshinoya Franchise Holdings Limited to the immediate holding company of the Target Group at an aggregate consideration of HK$7,800,000. The Target Group's management considered that such disposal was distribution of the subsidiaries to the immediate holding company as the principal activities of the subsidiaries were not related to the principal activities of the Target Group.

12. INFORMATION ON THE GROUP AND THE ENLARGED GROUP

12.1 Information on the Group

The principal activity of the Company is investment holding. The subsidiaries of the Group are mainly engaged in the purchasing, extracting, refining, blending, bottling, marketing and distribution of edible oils and fats for consumption by households and restaurants and other catering establishments in Hong Kong, Macau, PRC and overseas countries and the provision of ancillary activities.

12.2 Business Model and Financial and Trading Prospects of the Enlarged Group

It has been the development strategies of the Group to diversify its existing business portfolio and broaden its source of income and enhance value to its Shareholders. The Proposed Acquisition is consistent with the Company's development strategies and the Group will be able to participate in the quick service restaurant chain business in the Franchise Regions which will enable the Group to develop a more diversified business in the food and beverage and retail business with significant growth potential. The Board expects that the Enlarged Group would derive additional earnings and cashflow contribution from the newly acquired business.

While the current market environment of the Oils Business is challenging, the Enlarged Group currently intends to continue operating its existing principal business in the purchasing, extracting, refining, blending, bottling, marketing and distribution of edible oils and fats for consumption by households and restaurants and other catering establishments in Hong Kong, Macau, PRC and overseas countries and to further explore opportunities to develop other edible oil related products as stated in the annual report 2009 of the Company.

After the completion of the Proposed Acquisition, the Enlarged Group will continue to develop and expand the newly acquired business with an aim to improve the financial performance and to maximize Shareholders' value. It is anticipated that after the Proposed Acquisition, the Enlarged Group will adhere to the business strategies of the Target Group. That includes further penetrating existing markets through new store openings in the Franchise Regions where it currently has operations as well as expanding into selected new regions with the Franchise Regions. A substantial part of the working capital will be used by the Enlarged Group for opening new stores for the Franchise Business. In addition, the Enlarged Group will also enhance the overall financial performance of the newly acquired business by focusing on several key initiatives, e.g expand delivery services, attract more customers, etc.

12.3 Information on the Directors of the Company

A. Directors

The biographical details of each of the Directors are set out as follows:

(a) Non-executive Directors

Mr. Hung Hak Hip, Peter, aged 66, Chairman, is a chartered accountant and worked in the Hong Kong securities industry before joining the Group in 1975. Mr. Hung is the brother of Ms. Hung Chiu Yee, a non-executive director of the Company. As at the date of this circular, Mr. Hung was the sole director and beneficial owner of the trustee of two family discretionary trusts which beneficially owned securities in the Company as disclosed in the sections under "Substantial Shareholders", "Directors' Interest in Securities" and "Share Option Scheme" in Appendix IV to this circular. The trustee is deemed to be a substantial shareholder of the Company by virtue of the SFO.

Dr. Hon. Wong Yu Hong, Philip, *GBS, JD, PhD*, aged 73, appointed a director of the Group in 1989, is a prominent businessman who serves on the board of a number of public organizations, including member of the Legislative Council for Hong Kong Special Administrative Region ("HKSAR"), Life Honorary Chairman of the Chinese General Chamber of Commerce and board member of the Hong Kong Trade Development Council. Dr. Wong received the Gold Bauhinia Star Award from the HKSAR Government in 2003 and the Courvoisier Awards for Business Excellency from the then Chief Justice of Hong Kong, Sir Denys Roberts, in 1986. He is the non-executive chairman of Qin Jia Yuan Media Services Company Limited and a non-executive director of Asia Financial Holdings Limited, both of which are Hong Kong listed companies. He was also an independent non-executive director of Elec & Eltek International Company Limited, securities of which are listed on Singapore Exchange Limited, up to December 31, 2009.

Mr. Sze Tsai To, Robert, aged 70, was appointed a director of the Group on June 1, 2000. Mr. Sze is a fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants and was a partner in an international firm of accountants with which he practised for over 20 years. He is also a non-executive director of a number of Hong Kong listed companies.

Mr. Cheung Wing Yui, Edward, aged 62, appointed a director of the Group in 1989, is a consultant of Woo, Kwan, Lee & Lo, solicitors. Mr. Cheung is also a qualified solicitor in England and Singapore and a member of CPA Australia. He is a non-executive director of a number of Hong Kong listed companies including Tai Sang Land Development Limited, Tianjin Development Holdings Limited, Sunevision Holdings Limited, SRE Group Limited and SmarTone Telecommunications Holdings Limited. He is also an independent non-executive director of Agile Property Holdings Limited which is a Hong Kong listed company. He was an independent non-executive director of Ping An Insurance (Group) Company of China, Limited until June 2009.

Mr. Seto Gin Chung, John, aged 63, appointed a director of the Group on April 25, 2006, is a director of Pacific Eagle Asset Management Limited since January 2006. He is an independent non-executive director of China Everbright Limited and Kowloon Development Company Limited. He was the Chief Executive Officer of HSBC Broking Services (Asia) Limited from 1982 to 2001. He was a non-executive director of Hong Kong Exchanges and Clearing Limited from 2000 to 2003, a council member of the Stock Exchange from 1994 to 2000 and was the first vice chairman of the Stock Exchange from 1997 to 2000. He was also appointed on October 28, 2010 a non-executive director of Sateri Holdings Limited, which became a listed company on the Stock Exchange on December 8, 2010. He holds a Master of Business Administration degree from New York University, USA and has over 30 years of experience in the securities and futures industry.

Hon. Shek Lai Him, Abraham, *SBS, JP*, aged 66, was appointed a director of the Group on January 1, 2007. Mr. Shek graduated from the University of Sydney, Australia with a Bachelor of Arts degree. He is a member of the Legislative Council for the HKSAR representing real estate and construction functional constituency since 2000. Currently, Mr. Shek is a member of the Court of The Hong Kong University of Science & Technology and member of the Court of The University of Hong Kong. He is also a director of The Hong Kong Mortgage Corporation Limited and the vice chairman of Independent Police Complaints Council. Mr. Shek was appointed as a Justice of the Peace in 1995 and was awarded the Silver Bauhinia Star in 2007. He is an independent non-executive director of a number of Hong Kong listed companies including NWS Holdings Limited, Midas International Holdings Limited, Paliburg Holdings Limited, Lifestyle International Holdings Limited, Chuang's Consortium International Limited, ITC Corporation Limited, Titan Petrochemicals Group Limited, Country Garden Holdings Company Limited, MTR Corporation Limited, Hsin Chong Construction Group Limited, Chuang's China Investments Limited, SJM Holdings Limited, Kosmopolito Hotels International Limited, ITC Properties Group Limited and China Resources Cement Holdings Limited. Mr. Shek is also an independent non-executive director of Eagle Asset Management (CP) Limited, the manager of Champion Real Estate Investment Trust and an independent non-executive director of Regal Portfolio Management Limited, the manager of Regal Real Estate Investment Trust. He was an independent non-executive director of See Corporation Limited from October 2005 up to September 30, 2008.

Ms. Hung Chiu Yee, aged 71, appointed a director of the Group in 1988, holds a Bachelor of Science degree and was a former senior executive of the Group. She has business interests in cosmetics and trading. Ms. Hung is the sister of Mr. Hung Hak Hip, Peter.

Mr. Lee Pak Wing, aged 65, holds a Master of Science degree in production technology. He joined the Group in 1979 prior to which he was a systems manager with Tyco Industries Limited. He was formerly the Vice-chairman of the Group.

(b) Executive Directors

Mr. Wong Kwok Ying, aged 52, is the Chief Financial Officer and Company Secretary of the Group and was appointed a director of the Group on January 10, 2000. Mr. Wong is a certified public accountant (practising) in Hong Kong and a fellow member of the Hong Kong Institute of Certified Public Accountants. He has over 30 years' finance, accounting and audit experience. Prior to joining the Group in 1990, he worked with one of the international accounting firms in Hong Kong.

Ms. Lam Fung Ming, Tammy, aged 47, is the Chief Operating Officer of the Group and responsible for the Group's sales activities, manufacturing, quality assurance and product development. She holds a Bachelor of Science degree in Food Science and Technology and a Higher Diploma in Chemical Technology from the Hong Kong Polytechnic University. She has over 20 years' experience in the oil and food industry. Ms. Lam joined the Group in 1990 and was appointed a director of the Group on November 1, 2004.

As of October 31, 2011, the Group had a total of approximately 375 full-time and part-time staff. Remuneration packages and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications, and experience of the staff. The table below shows the total approximate number of employees of the Group as of the dates indicated:

	As at and for the year ended December 31,			As at and for the six months ended June 30,
	2008	2009	2010	2011
Total Number of Employees (including both full-time and part-time employees)	428	427	453	428
Total Remuneration of the Employees (excluding directors) *(million)*	HK$41.5	HK$43.3	HK$44.0	HK$25.0

12.4 Internal Control

The Board is responsible for the Group's system of internal control that is designed to facilitate effective and efficient operations and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. In devising internal controls, the Group has regard to the nature and extent of the risk, the likelihood of it crystallizing and the cost of controls. A system of internal control is designed to manage, but not eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute, assurance against the risk of material misstatement, fraud or losses.

The Board, with the assistance of its audit committee, assesses the effectiveness of internal control of the Group by considering reviews performed by the management, the independent auditors and the internal assessment report outsourced and performed by a firm of qualified accountants.

The aforesaid is an ongoing process for identifying, evaluating and managing of significant business, financial, compliance and operational risks specific to the Group. Relevant recommendations made by the audit committee, the independent auditors and the external accountants who perform the reviews at least annually would be implemented, if appropriate, as soon as possible by the Group to further enhance its internal control policies, procedures and practices.

12.5 Financial Information and Management Discussion and Analysis of the Group

Overview

The Group is principally engaged in the purchasing, extracting, refining, blending, bottling, marketing and distribution of edible oils and fats for consumption by households and restaurants and other catering establishments in Hong Kong, Macau, PRC and overseas countries and the provision of ancillary activities. The Group's turnover represents the net invoiced value of edible oils and fats sold, after allowances for returns and trade discounts, the value of services rendered, gross rental income received and royalties during the period. The Group has been trying to improve the Group's performance by focusing on relatively high margin products and better utilizing its efficient production facilities to provide edible oil related services to other market players.

Significant factors affecting the Group's results of operations

The following factors have had a significant impact on the Group's results of operations.

- Health of the global and Chinese economy — Since 2008, the business environment in which the Group operates has been significantly impacted by the financial events in the western countries which caused the global and Chinese economic conditions to worsen. It is expected that such business environment will continue to hinge on the financial stability of the western countries in the near future.

- Competition — The Group operates in a highly competitive edible oils and fats market. The level of competition in the Group's industry historically caused the Group to experience pricing pressure which affected its gross margins. Severe competition is expected to continue to be a challenge that the management has to face with.

- Product mix — Historically the Group was able to improve its gross margin by selling higher volumes of higher margin products. The management believes that meeting the needs of the Group's customers and providing them with healthy and quality products will enable the Group to stand against challenges that may come. The Group will also explore opportunities to improve the financial contribution of the Group's PRC operation.

- Cost of raw materials — The major raw materials used in the production of the Group's products include crude edible oils. The Group is exposed to fluctuations in the prices of these raw materials which are subject to global as well as regional supply and demand and other factors. Fluctuations in the prices of raw materials have adverse effects on the Group's financial performance.

- Production efficiency — The Group has focused on improving the efficiency of the Group's production facilities in the past years which enabled the Group to maintain its operating costs at a reasonable level and to provide OEM edible oil services to third parties which improved the utilization of the Group's production facilities.

Recent developments

Proposed Acquisition of the Target Group

The Group entered into the Acquisition Agreement with the Seller on December 1, 2011 in relation to the acquisition of the entire issued share capital of the Target and the Loan by the Group from the Seller.

The Consideration payable by the Company to the Seller pursuant to the Acquisition Agreement is HK$3,475 million, which will be satisfied upon Completion by the issue of the Convertible Securities to the Seller (or to its appointed nominee(s)). Upon payment of the Consideration at Completion, the Loan will be released by the Seller.

The Proposed Acquisition is subject to certain conditions, including the authorization by the Group's Shareholders and the fulfilment of certain conditions under the Acquisition Agreement which has been set out in "2. The Acquisition Agreement" in this letter from the Board.

Critical accounting policies

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. In areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, the Group's operating results and financial position are sensitive to the accounting methods, assumptions and estimates that are used in the preparation of the consolidated financial statements. Actual results may differ from these estimates under different assumptions and conditions. The selection of critical accounting policies, as well as the judgments and other uncertainties affecting the application of those critical accounting policies are factors to be considered when reviewing the Group's financial information. The Group believes the following accounting policies involve the most significant judgment and estimates used in the preparation of its financial statements.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than stocks, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation.

The transitional provision set out in paragraph 80A of HKAS 16 *Property, Plant and Equipment* issued by the HKICPA has been adopted for certain properties which are stated at valuation. As a result, those assets stated at revalued amounts based on revaluations which were reflected in the financial statements for the year ended December 31, 1993 have not been revalued by class at the end of the reporting period.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the remaining terms of the leases
Buildings	2% to 2.5% or over the terms of the leases, if shorter
Barges, vehicles, leasehold improvements, machinery and equipment	5% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset. On disposal of a revalued asset, the relevant portion of the other properties revaluation reserve realised in respect of previous valuations is transferred to accumulated losses as a movement in reserves.

Trademarks

Trademarks with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level, and are not amortized. The useful life of a trademark with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after November 7, 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial option pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification, that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Recognition of deferred tax assets

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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 profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Description of selected line items from the Group's consolidated income statements

Turnover

The Group's turnover represents the net invoiced value of edible oils and fats products sold, after allowances for returns and trade discounts, the value of services rendered, gross rental income received and royalties during the period. The Group's primary operating segment is the edible oils and food related business.

Direct cost of stocks sold and services provided

The Group's direct cost of stocks sold and services provided primarily consists of raw edible oil and packaging material costs.

Other income and gains, net

Net other income and gains consists of bank interest income, net foreign exchange differences, net gain on disposal of items of property, plant and equipment, and recovery of prepayments and deposits written off in prior years.

Other production and service costs

The Group's other production and service costs primarily consist of depreciation and amortization, salaries and other compensation for the production staff, rental expenses for leased factory space, fuel cost and other utilities and overhead expenses.

Selling and distribution costs

The Group's selling and distribution costs consist of salaries and other compensation for the sales staff, advertising and promotion and marketing expenses and other distribution-related costs.

General and administrative expenses

The Group's general and administrative expenses primarily consist of salaries and other compensation for directors, management personnel and other administrative staff, rental expenses for leased office space, travel expenses and other office and administrative expenses.

Finance costs

Finance costs consist of interest on bank and other loans wholly repayable within five years.

Income tax expense

Income tax expense mainly consists of the Hong Kong profits tax and deferred tax expenses of the Group.

Results of operations

The table below sets forth data from the Group's consolidated income statements.

	Year ended December 31,			Six months ended June 30,	
	2008	**2009**	**2010**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	**1,013,020**	**861,057**	**769,147**	**334,976**	**385,257**
Direct cost of stocks sold and services provided	(788,215)	(639,298)	(558,277)	(240,638)	(283,546)
Other income and gains, net	11,081	6,280	1,707	739	1,290
Other production and service costs	(58,751)	(54,038)	(53,961)	(26,300)	(27,188)
Selling and distribution costs	(97,308)	(102,447)	(98,927)	(49,402)	(50,130)
General and administrative expenses	(46,384)	(43,862)	(41,120)	(21,267)	(22,628)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**33,443**	**27,692**	**18,569**	**(1,892)**	**3,055**
Finance costs	(13,111)	(9,718)	(8,535)	(3,998)	(5,001)
Share of loss of associates	(182)	(23)	—	—	—
PROFIT/(LOSS) BEFORE TAX	**20,150**	**17,951**	**10,034**	**(5,890)**	**(1,946)**
Income tax expense	(4,275)	(3,435)	(3,500)	(1,048)	(1,034)
PROFIT/(LOSS) FOR THE YEAR/PERIOD	**15,875**	**14,516**	**6,534**	**(6,938)**	**(2,980)**
Attributable to:					
Equity holders of the Company	14,698	12,784	7,179	(6,789)	(1,892)
Non-controlling interests	1,177	1,732	(645)	(149)	(1,088)
	15,875	14,516	6,534	(6,938)	(2,980)

Six months ended June 30, 2011 and 2010

Turnover

Turnover increased by 15.0% from HK$335.0 million for the six months ended June 30, 2010 to HK$385.3 million for the corresponding period in 2011. This increase was primarily due to an increase in average selling prices of the Group's products in Hong Kong. In PRC, however, the fierce competition together with the control on the retail prices of edible oil products imposed by the government during the six months ended June 30, 2011 exerted pressure on the sales volume and gross margin of the Group's PRC operations.

Direct cost of stocks sold and services provided

Direct cost of stocks sold and services provided increased by 17.8% from HK$240.6 million for the six months ended June 30, 2010 to HK$283.5 million for the corresponding period in 2011. This increase, which was at a pace faster than the increase in turnover, was mainly due to the upward trend of raw edible oil costs that started in the second half of 2010 and continued into the first half of 2011.

Other income and gains, net

Net other income and gains increased from HK$0.7 million for the six months ended June 30, 2010 to HK$1.3 million for the corresponding period in 2011. This increase was primarily due to an increase in foreign exchange gain resulting from the appreciation of Renminbi.

Other production and service costs

Other production and service costs increased slightly by 3.4% from HK$26.3 million for the six months ended June 30, 2010 to HK$27.2 million for the corresponding period in 2011.

Selling and distribution costs

Selling and distribution costs increased slightly by 1.5% from HK$49.4 million for the six months ended June 30, 2010 to HK$50.1 million for the corresponding period in 2011. The increase in selling and distribution costs during the period was slower than the increase in turnover mainly due to less advertising and TV advertisement production costs undertaken for the six months ended June 30, 2011 compared to the corresponding period in 2010.

General and administrative expenses

General and administrative expenses increased slightly by 6.4% from HK$21.3 million for the six months ended June 30, 2010 to HK$22.6 million for the corresponding period in 2011.

Profit/(loss) from operating activities

The Group had a profit from operating activities of HK$3.1 million for the six months ended June 30, 2011, compared to a loss from operating activities of HK$1.9 million for the corresponding period in 2010. This change was primarily due to the increase in selling prices of the Group's products which resulted in an increase in gross profit and hence profit from operating activities.

Finance costs

Finance costs increased from HK$4.0 million for the six months ended June 30, 2010 to HK$5.0 million for the corresponding period in 2011. This increase was primarily due to an increase in the interest rates for the loans during the period.

Income tax expense

Income tax expense decreased slightly by 1.3% from HK$1.05 million for the six months ended June 30, 2010 to HK$1.03 million for the corresponding period in 2011. This decrease was primarily due to a slight decrease in taxable profit.

Loss for the period

For the reasons noted above, the Group's loss for the period decreased by 57.0% from HK$6.9 million for the six months ended June 30, 2010 to HK$3.0 million for the corresponding period in 2011.

Years ended December 31, 2010 and 2009

Turnover

Turnover decreased by 10.7% from HK$861.1 million in 2009 to HK$769.1 million in 2010. This decrease was primarily due to fierce competition in PRC which exerted pressure on the sales volume of the Group's PRC operations.

Direct cost of stocks sold and services provided

Direct cost of stocks sold and services provided decreased by 12.7% from HK$639.3 million in 2009 to HK$558.3 million in 2010. This decrease corresponded to the decrease in the Group's sales volume. The decrease in direct cost of stocks sold and services provided during the period was faster than the decrease in turnover mainly due to management's focus on products with higher margins.

Other income and gains, net

Net other income and gains decreased from HK$6.3 million in 2009 to HK$1.7 million in 2010. This decrease was primarily due to the inclusion of recovery of prepayments and deposits written off in prior years of HK$6 million in 2009.

Other production and service costs

Other production and service costs decreased slightly by 0.1% from HK$54.04 million in 2009 to HK$53.96 million in 2010. This decrease was mainly due to a decrease in the Group's sales volume, which was partially offset by an increase in the provision of OEM refining services during the year.

Selling and distribution costs

Selling and distribution costs decreased by 3.4% from HK$102.4 million in 2009 to HK$98.9 million in 2010. The decrease in selling and distribution costs during the period was slower than the decrease in turnover mainly due to an increase in advertising expenses in 2010.

General and administrative expenses

General and administrative expenses decreased by 6.3% from HK$43.9 million in 2009 to HK$41.1 million in 2010. This decrease was mainly attributable to a decrease in equity-settled share option expenses from HK$4.0 million in 2009 to HK$2.3 million in 2010.

Profit/(loss) from operating activities

The Group's profit from operating activities decreased by 32.9% from HK$27.7 million in 2009 to HK$18.6 million in 2010. This decrease was mainly due to the decrease in sales volume during the year.

Finance costs

Finance costs decreased from HK$9.7 million in 2009 to HK$8.5 million in 2010. This decrease was primarily due to a decrease in interest rates on bank loans in 2010 compared to 2009.

Income tax expense

Income tax expense increased slightly by 1.9% from HK$3.4 million in 2009 to HK$3.5 million in 2010 while profit before tax decreased by HK$7.9 million from HK$18.0 million in 2009 to HK$10.0 million in 2010. This was primarily due to decrease in income not subject to tax in 2010 compared to 2009.

Profit for the year

For the reasons above, the Group's profit for the year decreased by 55.0% from HK$14.5 million in 2009 to HK$6.5 million in 2010.

Years ended December 31, 2009 and 2008

Turnover

Turnover decreased by 15.0% from HK$1,013.0 million in 2008 to HK$861.1 million in 2009. This decrease was primarily due to a decrease in the Group's average selling price as a result of the impact of the financial tsunami which started off in 2008. Such decrease was partially offset by an increase in the provision of OEM services in 2009.

Direct cost of stocks sold and services provided

Direct cost of stocks sold and services provided decreased by 18.9% from HK$788.2 million in 2008 to HK$639.3 million in 2009. This decrease was mainly due to the corresponding decrease in raw edible oil cost in 2009.

Other income and gains, net

Net other income and gains decreased from HK$11.1 million in 2008 to HK$6.3 million in 2009. The other income and gains in 2008 mainly included gain on disposal of items of property, plant and equipment of HK$8.3 million and foreign exchange gain of HK$2.3 million. The other income and gains in 2009 mainly included recovery of prepayments and deposit of HK$6 million written off in prior years.

Other production and service costs

Other production and service costs decreased by 8.0% from HK$58.8 million in 2008 to HK$54.0 million in 2009. The decrease in other production and service costs during the period corresponded to the decrease in fuel cost and depreciation.

Selling and distribution costs

Selling and distribution costs increased by 5.3% from HK$97.3 million in 2008 to HK$102.4 million in 2009. This increase was primarily due to increased advertising and promotional activities to stimulate the spending initiative of consumers and meet the keen competition in the market.

General and administrative expenses

General and administrative expenses decreased by 5.4% from HK$46.4 million in 2008 to HK$43.9 million in 2009. This decrease was primarily due to redomicile expenses of HK$2.5 million incurred in 2008 for changing the listing vehicle of the Group from HHHL, which is incorporated in Bermuda, to the Company, which is incorporated in the Cayman Islands.

Profit/(loss) from operating activities

For the reasons above, the Group's profit from operating activities decreased by 17.2% from HK$33.4 million in 2008 to HK$27.7 million in 2009.

Finance costs

Finance costs decreased from HK$13.1 million in 2008 to HK$9.7 million in 2009. This decrease was primarily due to a decrease in interest rates for loans in PRC.

Income tax expense

Income tax expense decreased by 19.6% from HK$4.3 million in 2008 to HK$3.4 million in 2009 which corresponded to the decrease in the Group's taxable profit.

Profit for the period

For the reasons above, the Group's profit for the period decreased by 8.6% from HK$15.9 million in 2008 to HK$14.5 million in 2009.

Liquidity and capital resources

In 2008, 2009, 2010 and the first half of 2011, the Group had met its working capital and cash requirements primarily through cash generated from operations and cash from bank facilities.

As of June 30, 2011, the Group's Hong Kong bank borrowings were bank loans of HK$67.2 million, and the Group's PRC bank borrowings were bank loans and bills payable totaling HK$137.9 million, of which approximately HK$72.2 million were borrowed by a PRC subsidiary of the Group and secured by certain property, plant and equipment and prepaid land lease payments of certain PRC subsidiaries of the Group and have no recourse to the Group other than those PRC subsidiaries. As of June 30, 2011, bank deposits of the Group of approximately HK$49.6 million were pledged to banks to secure banking facilities granted to the Group.

The Group's total bank loans that were either repayable or subject to renewal within one year amounted to HK$150.7 million, HK$154.1 million, HK$176.2 million and HK$166.8 million as of December 31, 2008, 2009 and 2010 and June 30, 2011, respectively.

The Group's gearing ratio (expressed as a percentage of interest-bearing bank and other loans over equity attributable to equity holders of the Company) was 36%, 35%, 36% and 34% as of December 31, 2008, 2009 and 2010 and June 30, 2011, respectively.

The Group's interest expense decreased from HK$13.1 million in 2008 to HK$9.7 million in 2009 mainly due to a decrease in interest rates for loans in PRC. The Group's interest expense decreased from HK$9.7 million in 2009 to HK$8.5 million in 2010 mainly due to a decrease in interest rates for bank loans. The Group's interest expense increased from HK$4.0 million in the first half of 2010 to HK$5 million in the first half of 2011 mainly due to an increase in interest rates for bank loans.

The Group's funding policy is to finance the business operations with internally generated cash and bank facilities. The Group's bank borrowings are denominated in Hong Kong dollars and Renminbi.

As of December 31, 2008, 2009 and 2010 and June 30, 2011, the Group had net current assets of HK$62.3 million, HK$98.5 million, HK$116.8 million and HK$128.8 million, respectively. The table below sets forth data from the Group's consolidated statements of financial position:

	As of December 31,			As of June 30,
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
CURRENT ASSETS				
Stocks	158,386	131,296	158,028	151,571
Accounts receivable	120,289	106,332	109,928	83,643
Prepayments, deposits and other receivables	19,139	19,255	21,561	31,352
Non-current assets held for disposal	—	—	—	10,706
Tax recoverable	1,816	326	1,511	1,400
Pledged bank deposits	10,466	10,961	43,477	49,576
Cash and cash equivalents	42,337	114,364	80,608	99,571
Total current assets	**352,433**	**382,534**	**415,113**	**427,819**
CURRENT LIABILITIES				
Accounts payable	54,954	39,317	60,613	37,971
Bills payable	28,636	36,538	17,925	38,253
Other payables and accrued charges	43,561	42,508	42,857	54,320
Interest-bearing bank and other loans	162,083	165,419	176,191	166,831
Tax payable	880	286	730	1,598
Total current liabilities	**290,114**	**284,068**	**298,316**	**298,973**
NET CURRENT ASSETS	**62,319**	**98,466**	**116,797**	**128,846**

Working Capital Statement

The Directors are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Group's present internal resources and available banking facilities, the Group has sufficient working capital for its present requirement for at least the next twelve months from the date of this circular.

Cash flows

The table below sets forth data from the Group's consolidated statements of cash flows:

	Year ended December 31,			Six months ended June 30,
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NET CASH FLOWS FROM/ (USED IN):				
Operating Activities	(5,714)	79,279	4,980	44,975
Investing Activities	6,341	(44,652)	25,397	(30,284)
Financing Activities	8,137	(5,600)	(33,805)	(26,019)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	8,764	29,027	(3,428)	(11,328)
Cash and cash equivalents at beginning of the period	33,573	42,337	71,364	68,843
Effect of foreign exchange rates changes, net	—	—	907	756
CASH AND CASH EQUIVALENTS AT END OF PERIOD	42,337	71,364	68,843	58,271

As of December 31, 2008, 2009, 2010 and June 30, 2011, the Group had HK$42.3 million, HK$71.4 million, HK$68.8 million and HK$58.3 million, respectively, in cash and cash equivalents as stated in the consolidated statements of cash flows. For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Operating activities

Net cash flows from/(used in) operating activities consisted primarily of the Group's profit (loss) before tax adjusted by non-cash items, such as depreciation, amortization and interest expenses, and further adjusted by changes in current assets and liabilities, such as stocks, accounts receivable, accounts payable and bills payable.

In the six months ended June 30, 2011, the Group's net cash flows from operating activities as stated in the consolidated statement of cash flows amounted to HK$45.0 million and loss before tax was HK$1.9 million. The HK$46.9 million of adjustments primarily consist of (i) an HK$8.8 million of adjustment for depreciation, (ii) an HK$5 million of adjustment for interest expenses on bank loans wholly repayable within five years which were allocated to cash flow from financing activities, and (iii) an HK$7.9 million decrease in stocks and an HK$26.6 million decrease in accounts receivable primarily due to seasonal factors.

In 2010, the Group's net cash flows from operating activities as stated in the consolidated statement of cash flows amounted to HK$5.0 million and profit before tax was HK$10.0 million. The HK$5.0 million of adjustments primarily consist of (i) HK$20.8 million increase in accounts payable primarily due to a decrease in use of bills payable to make purchase settlements, (ii) an HK$17.7 million of adjustment for depreciation, and (iii) an HK$8.5 million of adjustment for interest expenses on bank and other loans wholly repayable within five years which were allocated to cash flow from financing activities, offset by (i) an HK$25.1 million increase in stocks primarily due to an increase in raw edible oil costs, (ii) an HK$19.5 million decrease in bills payable due to a decrease in use of bills payable to make purchase settlements, (iii) HK$3.3 million of Hong Kong profit tax paid, and (iv) an HK$2.7 million increase in accounts receivable.

In 2009, the Group's net cash flows from operating activities as stated in the consolidated statement of cash flows amounted to HK$79.3 million and profit before tax was HK$18.0 million. The HK$61.3 million of adjustments primarily consist of (i) an HK$27.1 million decrease in stocks primarily due to a decrease in raw edible oil costs, (ii) an HK$17.5 million of adjustment for depreciation, (iii) an HK$14.1 million decrease in accounts receivable primarily due to a decrease in turnover, (iv) an HK$9.7 million of adjustment for interest expenses on bank and other loans wholly repayable within five years which were allocated to cash flow from financing activities, and (v) an HK$7.7 million net decrease in bills payable and accounts payable primarily due to a decrease in raw edible oil costs.

In 2008, the Group's net cash flows used in operating activities as stated in the consolidated statement of cash flows amounted to HK$5.7 million and profit before tax was HK$20.2 million. The HK$25.9 million of adjustments primarily consist of (i) an HK$19.0 million increase in stocks primarily due to an increase in raw edible oil costs, (ii) an HK$12.1 million increase in accounts receivable primarily due to an increase in turnover, (iii) an HK$9.5 million decrease in other payables and accrued charges primarily due to a decrease in oil purchase deposits placed by customers, (iv) an HK$9.4 million decrease in accounts payable primarily due to an increase in use of bank loan to make purchase settlement, and (v) an HK$8.3 million of adjustment for net gain on disposal of items of property, plant and equipment, offset by (i) an HK$19.6 million of adjustment for depreciation, and (ii) an HK$13.1 million of adjustment for interest expenses on bank and other loans wholly repayable within five years which were allocated to cash flow from financing activities.

Investing activities

Net cash flows from/(used in) investing activities largely reflect the Group's time deposits with original maturity of more than three months when acquired and purchases of items of property, plant and equipment and trademarks.

In the six months ended June 30, 2011, the Group's net cash flows used in investing activities amounted to HK$30.3 million, which primarily reflected an HK$29.5 million increase in time deposits with original maturity of more than three months when acquired and an HK$0.9 million of purchase of items of property, plant and equipment for production.

In 2010, the Group's net cash flows from investing activities amounted to HK$25.4 million, which primarily reflected an HK$31.2 million decrease in time deposits with original maturity of more than three months when acquired, partially offset by an HK$6.5 million of purchase of items of property, plant and equipment for production.

In 2009, the Group's net cash flows used in investing activities amounted to HK$44.7 million, which primarily reflected an HK$43.0 million increase in time deposits with original maturity of more than three months when acquired.

In 2008, the Group's net cash flows from investing activities amounted to HK$6.3 million, which primarily reflected an HK$10.8 million proceeds from disposal of items of property, plant and equipment and prepaid land lease payments, partially offset by an HK$4.2 million of purchases of items of property, plant and equipment for production.

Financing activities

Net cash flows from/(used in) financing activities largely reflect the Group's increase in pledged bank deposits, interest payments, net drawing of bank and other loans and net proceeds from issue of shares.

In the six months ended June 30, 2011, the Group's net cash flows used in financing activities was HK$26.0 million, which primarily reflected an HK$12.0 million of net repayment of bank loans, an HK$6.0 million increase in pledged bank deposits for new banking facilities and an HK$5 million of interest paid.

In 2010, the Group's net cash flows used in financing activities was HK$33.8 million, which primarily reflected an HK$32.5 million increase in pledged bank deposits for new banking facilities and an HK$8.5 million of interest paid, partially offset by an HK$7.1 million of net drawing of bank and other loans.

In 2009, the Group's net cash flows used in financing activities was HK$5.6 million, which primarily reflected an HK$9.7 million of interest paid and an HK$3.0 million of repayment of loans due to minority shareholders of a non-wholly owned subsidiary, partially offset by an HK$4.2 million of net proceeds from issue of shares for cash pursuant to exercise of the Company's warrants and an HK$3.3 million of net drawing of bank and other loans.

In 2008, the Group's net cash flows from financing activities was HK$8.1 million, which primarily reflected an HK$14.4 million of net proceeds from issue of shares for cash pursuant to exercise of the Company's warrants and an HK$8.2 million of net drawing of bank and other loans, partially offset by an HK$13.1 million of interest paid and an HK$1.3 million of increase in pledged bank deposits.

Capital expenditure and commitments

The Group incurred capital expenditure of approximately HK$0.9 million in the six months ended June 30, 2011, mainly related to purchase of production machinery and equipment. The Group incurred capital expenditure of approximately HK$6.5 million in 2010, mainly related to purchase of barge, production machinery and equipments and enhancement of management information system. The Group incurred capital expenditure of approximately HK$1.5 million in 2009, mainly related to purchase of production machinery and equipment. The Group incurred capital expenditure of approximately HK$4.2 million in 2008, mainly related to purchase of production machinery and equipment.

The Group's capital commitments as of June 30, 2011 amounted to approximately HK$1.2 million, which were mainly related to purchase of production machinery and equipment.

Contingencies and guarantees

As of December 31, 2010, the contingent liabilities of the Group in respect of guarantees given to a bank to secure a banking facility granted to a third party amounted to HK$11,765,000.

In 2010, the Hong Kong Inland Revenue Department (the "**IRD**") issued protective assessments for the years of assessment 2003/2004 to a jointly-controlled entity of the Group, in respect of which tax reserve certificate amounted to HK$2,800,000 was purchased. During the six months ended June 30, 2011, IRD issued protective assessments for the year of assessment 2004/2005 to the jointly-controlled entity and a subsidiary of the Group, in respect of which tax reserve certificates amounted to HK$4,000,000 and HK$1,500,000 were purchased respectively. The Group has lodged objections with the IRD against these assessments. In the opinion of the Directors, the Group has grounds to contest the protective tax assessments, thus provision for Hong Kong profits tax in respect of these assessments at this information gathering stage is not considered necessary.

As of June 30, 2011, certain land use rights, classified as prepaid land lease payments, and certain leasehold land and buildings and plant and machinery of the Group with an aggregate carrying values of approximately HK$27.7 million and HK$94.3 million, respectively, and bank deposits of the Group of approximately HK$49.6 million were pledged to banks to secure banking facilities granted to the Group.

Except as described above, for the Track Record Period, the Group did not have any outstanding loan capital (issued or agreed to be issued), bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charge of assets or loans or acceptance credits or hire purchase commitments, finance lease commitments, guarantees, indemnities or other material contingent liabilities.

Financial Risk Management

The Group's principal financial instruments comprise interest-bearing bank and other loans, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable, and accounts and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group is also subject to commodity price risk. The board of directors reviews and agrees policies for managing each of these risks, which are summarized below.

Interest rate risk

The Group's current banking facilities maintained with commercial banks are mainly at fixed rates. Hence, the Group currently does not have an interest rate hedging policy. However, the management monitors the Group's interest exposure and will consider hedging significant interest rate exposure should the needs arise.

Foreign currency risk

The Group's monetary assets, liabilities and transactions are principally denominated in Hong Kong dollars, Renminbi or United States dollars. Given that the Hong Kong dollars are pegged to the United States dollars and fluctuations between Renminbi and United States dollars are under the control of the PRC government, the foreign currency risk is considered not material and the Group therefore does not have a foreign currency hedging policy. However, the management monitors the Group's foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arise.

Credit risk

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. With such policies in place, the Group has been able to maintain its bad debts at a reasonable level. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's accounts receivable are widely diversified to a large number of customers.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. accounts receivable) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other loans to meet its working capital and capital expenditure requirements. The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was less than one year.

Commodity price risk

The major raw materials used in the production of the Group's products include crude edible oils. The Group is exposed to fluctuations in the prices of these raw materials which are subject to global as well as regional supply and demand and other factors. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group did not enter into any commodity derivative instruments to hedge the potential commodity price changes during the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011.

Material disposals by the Group

The following summarizes the major disposals by the Group for the three years ended December 31, 2010 and the six months ended June 30, 2011, details of which are set out in the announcements and circulars published by the Company in relation to the respective disposals. The Group did not have any major acquisitions for the three years ended December 31, 2010 and the six months ended June 30, 2011.

On February 28, 2011, Sino Can Edible Oil Manufacturing & Technology Co. Ltd., a wholly-owned subsidiary of the Company ("**Sino Can**") and two individual purchasers entered into a memorandum of understanding and subsequently entered into a sale and purchase agreement, pursuant to which, Sino Can has agreed to dispose of a property with a gross floor area of approximately 5,818 square meters located in PRC to the two individual purchasers for a consideration of RMB11 million (equivalent to approximately HK$13.2 million). A gain in an estimated sum of approximately HK$8.8 million is expected to accrue to the Group in the second half of 2011 as a result of the disposal.

To comply with the land policy of the local government, Pinghu Hop Hing Vegetable Oils Company, Limited, a non wholly-owned subsidiary of the Company ("**Pinghu Hop Hing**"), had to dispose a property located in PRC, which was the only manufacturing facilities of Pinghu Hop Hing (the "**Pinghu Property**"). Pinghu Hop Hing entered into a Compensation Agreement with the developer of the Pinghu Property on March 14, 2011 to dispose the property at a consideration of RMB12 million (equivalent to approximately HK$14.4 million). In view of the disposal of the Pinghu Property and the unfavorable operating conditions of Pinghu Hop Hing, the equity interest holders of Pinghu Hop Hing resolved to cease its business operation. On

June 7, 2011, Pinghu Hop Hing entered into a Sale and Purchase Agreement with Jiaxing Huiyuantang Shenrong Co., Ltd.* (嘉興市匯元堂參茸有限公司), a third party independent of the Company ("**Jiaxing Huiyuantang**") for sale of the equity interests and assets of Pinghu Hop Hing to Jiaxing Huiyuantang. Hong Kong Hop Hing Oil Refining (Pinghu) Limited ("**Hop Hing (Pinghu)**"), which is a wholly-owned subsidiary of the Company and is interested in 51% equity interest in Pinghu Hop Hing, acknowledged on June 7, 2011 that it would be willing to be bound by the Sale and Purchase Agreement and transfer its 51% equity interest in Pinghu Hop Hing to the company directed by the Jiaxing Huiyuantang. The holders of the equity interest of Pinghu Hop Hing (including Hop Hing (Pinghu)) will enter into separate sale and purchase agreements with Jiaxing Huiyuantang or companies directed by it for the transfer of the equity interests in Pinghu Hop Hing.

On September 30, 2011, the Group, through a subsidiary of the Company, entered into a termination agreement with a subsidiary of Lam Soon (Hong Kong) Limited ("**Lam Soon**") to terminate the joint venture agreement in respect of Evergreen Oils & Fats Limited ("**Evergreen**"), a company owned as to 50% by the Group and 50% by Lam Soon and principally engaged in the business of warehousing, marketing and selling edible oils with individual packaging of 150 kilograms or less and edible fats and shortenings (in either case for human consumption) in Hong Kong and Macau. The termination will take effect from April 1, 2012. Upon termination of the Joint Venture Agreement, the business of producing, manufacturing, warehousing, marketing and sale of the Group's products which is being carried out by Evergreen will be carried out by subsidiaries of the Company according to the Group's own business strategies.

Employees of the Group

As of October 31, 2011, the Group had 375 full-time and part-time staff in Hong Kong, Macau and PRC. Staff remuneration packages of the staff of the Group are comprised of salary and discretionary bonuses and are determined with reference to the market conditions and the performance of the Group and the individuals concerned. The Group also provided other staff benefits including medical insurance, continuing education allowances, provident funds and share options to eligible staff of the Group.

Statement of indebtedness of the Enlarged Group

As at the close of business on October 31, 2011, the Enlarged Group had outstanding bank loans of approximately HK$187.0 million comprising secured bank loans of approximately HK$103.8 million, unsecured bank loans of approximately HK$83.2 million, all of them are repayable within one year. In addition, the Enlarged Group had secured bills payable of HK$15.1 million at October 31, 2011.

As at October 31, 2011, the bank loans of the Enlarged Group in Hong Kong were HK$57.9 million. The other bank loans of the Enlarged Group as at the period end were PRC bank loans of HK$129.1 million, of which approximately HK$72.2 million were borrowed by a PRC subsidiary of the Enlarged Group and secured by certain

* *For identification only*

property, plant and equipment and prepaid land lease payments of certain PRC subsidiaries of the Enlarged Group and have no recourse to the Enlarged Group other than those PRC subsidiaries. As at October 31, 2011, bank deposits of the Enlarged Group of approximately HK$40.7 million were pledged to banks to secure banking facilities granted to the Enlarged Group.

The Enlarged Group also had a total amount of approximately HK$47.2 million due to related companies as at October 31, 2011.

The Enlarged Group had contingent liabilities in respect of following as at 31 October 2011:

During the year ended December 31, 2010, the Hong Kong Inland Revenue Department (the "**IRD**") issued protective assessments for the years of assessment 2003/2004 to a jointly-controlled entity of the Enlarged Group, in respect of which tax reserve certificate amounted to HK$2,800,000 was purchased. During the ten months ended October 31, 2011, IRD issued protective assessments for the year of assessment 2004/2005 to the jointly-controlled entity and a subsidiary of the Enlarged Group, in respect of which tax reserve certificates amounted to HK$4,000,000 and HK$1,500,000 were purchased respectively. The Enlarged Group has lodged objections with the IRD against these assessments.

In the opinion of the Directors, the Enlarged Group has grounds to contest the protective tax assessments, thus provision for Hong Kong profits tax in respect of these assessments at this information gathering stage is not considered necessary.

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have any outstanding mortgages, charges, debentures or other loan or bank overdrafts, debt securities or other similar indebtedness or acceptance credits or hire purchase commitments or any guarantees or other material contingent liabilities as the close of business on October 31, 2011.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Enlarged Group since October 31, 2011 and up to the Latest Practicable Date.

13. EXTRAORDINARY GENERAL MEETING

The EGM will be convened and held at Tianshan and Lushan Rooms, Level 5, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Admiralty, Hong Kong on Tuesday, January 17, 2012 at 11:00 a.m., for the Shareholders to consider and, if thought fit, to approve, among other things:

1) the Acquisition Agreement and the transactions contemplated thereunder (including the issue of the Convertible Securities to the Seller as contemplated under the Acquisition Agreement); and

2) the proposed increase in the authorized share capital of the Company.

Mr. Hung Hak Hip, Peter and Ms. Hung Chiu Yee (each being a member of the Hung Family) and Mr. Lee Pak Wing (being a director of several Target Group Companies) had abstained from voting on the board resolutions in respect of the approval of the Proposed Acquisition.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder apart from the Hung Family, Mr. Lee Pak Wing (being a director of several Target Group Companies) and their respective associates shall abstain from voting on the resolutions approving the Acquisition Agreement and the transactions contemplated thereunder (including the issue of the Convertible Securities).

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon Shareholders; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby they have or may have temporarily or permanently passed control over the exercise of the voting right in respect of their Shares to a third party, either generally or on a case-by-case basis.

The votes to be taken at the EGM in relation to the above proposed resolutions will be taken by poll.

Merrill Lynch (Asia Pacific) Limited has been appointed as the financial adviser to the Company in connection with the Proposed Acquisition and the transactions contemplated thereunder.

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in relation to the Acquisition Agreement and the transactions contemplated thereunder (including the issue of the Convertible Securities). Guangdong Securities has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A notice convening the EGM is set out on pages EGM-1 to EGM-3 of this circular. A proxy form for use at the EGM is enclosed. At the EGM, ordinary resolutions will be proposed to approve, among other things, the Acquisition Agreement and the transactions contemplated thereunder (including the issue of Convertible Securities) and the proposed increase in authorized share capital of the Company.

14. CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from Saturday, January 14, 2012 to Tuesday, January 17, 2012, both days inclusive, during which period no transfer of Shares will be effected.

In order to qualify for attending the EGM, all transfers of Shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, situated at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4: 30 p.m. on January 13, 2012 for registration.

15. RECOMMENDATIONS

In evaluating the Proposed Acquisition, the Directors have considered the risk factors as set out in the section headed "Risk Factors" of this circular and also the measures adopted by the Target Group to mitigate the potential exposure of such risks on the business operations of the Target Group. The Directors have also considered the features of the Convertible Securities (including the Conversion Price adjustment clause, the automatic conversion clause, the possible dilution effect, the restriction of declaration of dividend payment by the Company, the lack of early redemption/early repurchase clause of the Convertible Securities, etc.) and are of the view that those features are on normal commercial terms. In addition, the Directors consider that the Company does not have a track record of paying dividends in recent years and that the commercial benefits of the Convertible Securities as a whole outweigh the negative effect of such features of the Convertible Securities. The Convertible Securities are structured to ensure that the public float requirement is complied with at all times and to maximize financial flexibility of the Company given the Company's ability to defer distributions at its sole discretion and no cash is required to be paid out upfront, which minimizes the undue financing pressure on the Company. Furthermore, despite the decrease in the growth rate of the Target Group when comparing total net profit CAGR from 2008 to 2010 and net profit growth from first half of 2010 to first half of 2011, the Directors believe that the Proposed Acquisition represents an excellent opportunity for the Group to diversify its business into the food and beverage and retail business with significant growth potential and also to capitalize on the favorable industry growth dynamics in the fast food industry in PRC. In addition, based on the relevant information disclosed herein, including the industry overview, the operation of the Target group, the risk factors and the legal and regulatory environment, etc., the Directors (including the independent non-executive Directors after considering the advice of Guangdong Securities) believe that the terms of the Acquisition Agreement are fair and reasonable and the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favor of all the resolutions to be proposed at the EGM in relation to the Acquisition Agreement and the transactions contemplated thereunder (including the issue of Convertible Securities).

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 156 of this circular. The Independent Board Committee, having taken into account the advice of Guangdong Securities, considers that the Proposed Acquisition is fair and reasonable and is in the interests of the Company and its Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the relevant resolutions to be proposed at the EGM.

16. OTHER INFORMATION

A letter of recommendation from the Independent Board Committee is set out on page 156 of this circular, which contains its recommendation to the Independent Shareholders, and the letter of advice from the Independent Financial Adviser is set out on pages 157 to 182 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders.

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

Yours faithfully,
On behalf of the Board
Hop Hing Group Holdings Limited
Hung Hak Hip, Peter
Chairman

HOP HING GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 47)
(Warrant Code: 134)

December 30, 2011

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF SUMMERFIELD PROFITS LIMITED INVOLVING THE ISSUE OF CONVERTIBLE SECURITIES

We refer to the circular dated December 30, 2011 of the Company (the "**Circular**") of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Acquisition Agreement and the transactions contemplated thereunder (including the issue of Convertible Securities), the details of which are set out in the "Letter from the Board" in the Circular to the Shareholders.

Having taken into account the advice of the Independent Financial Adviser, we consider that the terms of the Proposed Acquisition contemplated under the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favor of the ordinary resolutions to approve the Proposed Acquisition contemplated under the Acquisition Agreement as set out in the notice of the EGM to be held on January 17, 2012.

Yours faithfully,
Independent Board Committee
Dr. Hon. Wong Yu Hong, Philip
Mr. Sze Tsai To, Robert
Mr. Cheung Wing Yui, Edward
Mr. Seto Gin Chung, John
Hon. Shek Lai Him, Abraham

Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition for the purpose of inclusion in this circular.

粵海證券有限公司
GUANGDONG SECURITIES LIMITED

Units 2505–06, 25/F.
Low Block of Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

30 December 2011

To: The independent board committee and the independent shareholders of Hop Hing Group Holdings Limited

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition, the details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 30 December 2011 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Company announced on 1 December 2011 that on even date, the Company (as the purchaser) and the Seller (a BVI company wholly-owned by the Hung Family) entered into the Acquisition Agreement, pursuant to which the Seller has agreed to sell the Sale Shares, representing the entire issued share capital of the Target, and the Loan, to the Company for the Consideration of HK$3,475 million. The Consideration will be satisfied by the issue of the Convertible Securities by the Company to the Seller (or to its appointed nominee(s)). Upon payment of the Consideration at Completion, the Loan will be released by the Seller.

Upon Completion, the Target will become a wholly-owned subsidiary of the Company.

According to the Board Letter, the Proposed Acquisition constitutes a very substantial acquisition and a connected transaction for the Company under Chapters 14 and 14A of the Listing Rules respectively. The Proposed Acquisition is therefore subject to requirements for reporting, announcement and approval by the Independent Shareholders by way of poll at the EGM whereby the Hung Family, Mr. Lee Pak Wing and their respective associates shall be required to abstain from voting.

An Independent Board Committee comprising Dr. Hon. Wong Yu Hong, Philip, *GBS*, Mr. Sze Tsai To, Robert, Mr. Cheung Wing Yui, Edward, Mr. Seto Gin Chung, John and Hon. Shek Lai Him, Abraham, *SBS, JP* (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Acquisition Agreement and the transactions contemplated thereunder at the EGM. We, Guangdong Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that there are no other facts the omission of which would make any statement in the Circular misleading.

In addition, we understand that the information/statistics quoted in the Board Letter are largely based on the commissioned *Euromonitor* Report dated December 2011 (the "**Report**") prepared by *Euromonitor* for the purposes of preparing the Circular. We noted that *Euromonitor* is a private company founded in 1972 and is one of the world's leading business information publishers and market research consultancies, with offices in London (HQ), Chicago, Singapore, Shanghai, Vilnius, Dubai, Cape Town, Santiago, Sydney and Tokyo. *Euromonitor* is also an independent market research provider, conducting global and in country research across over 80 countries worldwide. For our due diligence purpose, we have also reviewed the terms of engagement of *Euromonitor* with the Company and interviewed the personnel of *Euromonitor* responsible for the Report. We performed due diligence on *Euromonitor*'s credentials as well as the approach and research methodology it adopted and the processes involved in preparation of the Report and how it has ensured that the information/statistics contained in the Report are true and accurate. Given

Euromonitor's prolonged history of establishment, its existing company scale, geographical coverage and independence, and based on our independent due diligence work, the information/statistics *Euromonitor* provided are generally believed to be reliable.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Target Group, the Seller or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposed Acquisition. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in the market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposed Acquisition, we have taken into consideration the following principal factors and reasons:

Background of the Proposed Acquisition

Information on the Group

As referred to in the Board Letter, the Group is principally engaged in the purchasing, extracting, refining, blending, bottling, marketing and distribution of edible oils and fats for consumption by households and restaurants and other catering establishments in Hong Kong, Macau, the PRC and overseas countries and the provision of ancillary activities. The Group's brands include "Lion & Globe" (獅球嘜) and "Camel" (駱駝嘜), which are well known brands in Hong Kong and the PRC.

Set out below are the consolidated financial results of the Group for the six months ended 30 June 2011 and the three years ended 31 December 2010, as extracted from the Company's 2011 interim report (the "**2011 Interim Report**"), its 2010 annual report (the "**2010 Annual Report**") and its 2009 annual report:

	For the six months ended 30 June 2011	**For the year ended 31 December 2010**	**For the year ended 31 December 2009**	**For the year ended 31 December 2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited)	(audited)
Turnover	385,257	769,147	861,057	1,013,020
Profit from operating activities	3,055	18,569	27,692	33,443
Profit/(Loss) for the year/period	(2,980)	6,534	14,516	15,875
Operating margin	0.8%	2.4%	3.2%	3.3%

As depicted by the above table, the Group's total turnover had been shrinking from approximately HK$1,013.0 million in 2008 to approximately HK$769.1 million in 2010. During the relevant years, the Group's profitability had also worsened.

According to the 2011 Interim Report as well as the 2010 Annual Report, the Group's business environment continued to be impacted by the financial events in the western world significantly. Edible oil costs started surging in the last quarter of 2010 after a less volatile period in the first three quarters in 2010, and such upward trend of edible oil costs persisted in the first half of 2011. The management of the Company attempted to improve the Group's performance in the second half of 2010 by focusing on relatively high margin products and better utilising its efficient production facilities to provide edible oil related services to other market players. Benefiting from those efforts, the Group was able to reduce its loss by approximately 57.0% to approximately HK$3.0 million for the six months ended 30 June 2011 as compared to the corresponding period in the prior year.

The Group derives its turnover mainly from the Hong Kong and PRC markets. In Hong Kong, while the Group's edible oil products have established loyalty among the customers, the Group introduced a number of healthy and quality products, including Olive Canola Oil, Olive Sunflower oil, Rice Bran Oil and Grapeseed Canola oil, into the market to cope with the increase in health consciousness of the Hong Kong population. As extracted from the 2010 Annual Report, a reputable international research company in Hong Kong revealed that the Group's Lion & Globe Canola oil products ranked first in sales value in the Canola oil segment from October 2006 to September 2010. Moreover, the Lion & Globe brand was awarded the "Outstanding Corporate Image Award 2010" by TVB Weekly Magazine, confirming the Group's success in strengthening the image of its flagship brand.

As for the PRC market, the Group's performance is affected by the fierce competition together with the control on the retail prices of edible oil products imposed by the government which exerted pressure on the sales volume and the gross profit margin of the Group's operation.

The Company further stated in the 2011 Interim Report and the 2010 Annual Report that apart from focusing on the core business, being the Oils Business, based on the Group's core skill, the management of the Company has started looking for opportunities to diversify into other business areas, including food related businesses, so as to broaden the business scope of the Group to balance and enhance the overall financial performance of the Group to create value for the Shareholders. Given the challenging market environment of the Oils Business together with the Group's relatively stagnant financial performance over the past few years, we concur with the management of the Company that it would be beneficial for the Group to seek opportunities to diversify its business.

Information on the Target Group

(a) Business overview

With reference to the Board Letter, the Target Group underwent the Reorganisation such that the Seller, through the Target Company, indirectly holds 100% shareholding of the Management Holding Company, the Intermediate SPVs, the Franchise Holding Companies and the PRC Operating Companies.

The Target Group is an investment holding company of a group of companies that owns the rights to operate the Yoshinoya (吉野家) and Dairy Queen quick service restaurant chains in the Franchise Regions. The Target Group entered into long-term franchise agreements, which give the Target Group exclusivity to operate the Franchise Stores in the Franchise Regions, with remaining terms (including automatically renewable terms under the relevant franchise agreements) of no less than approximately 20 years in general. Given (i) that the Franchisors generally do not have the right of early termination of the franchises except in instances which involve breach of the franchise agreements by the franchisee or some specific events such as bankruptcy of the franchisee; (ii) the Target Group's long-term relationship with the Franchisors; and (iii) the historical track record of expanding the scope of regions covered under the Franchise Business, the Company advised us that they consider the risk of termination of the said franchises in the short run to be limited, and therefore we consider that the lack of perpetual renewal term of the franchise agreements would not materially affect our opinion in relation to the Proposed Acquisition.

As referred to in the Board Letter, the first Franchise Store was opened in Beijing in 1992. Nevertheless, since the development of the Target Group's business is not restricted to the Beijing market, our analysis is based on the statistical data of the Franchise Regions as a whole. As of 30 September 2011, the Target Group operated the Franchise Business with over 200 Yoshinoya stores in the cities of Beijing, Tianjin, Shijiazhuang, Tangshan, Langfang, Handan, Shenyang, Dalian, HuHeHaoTe and Harbin in the Franchise Regions and over 100 Dairy Queen stores in Beijing, Tianjin, Shijiazhuang, Langfang, Shenyang, Dalian and HuHeHaoTe in the Franchise Regions. The Target Group's Yoshinoya stores offer a variety of meals, principally the rice bowl, with beef, chicken or pork; whilst its Dairy Queen stores offer a range of traditional ice-cream cakes, frozen treats and beverages, including the "Blizzard" treats.

According to *Euromonitor*, the Target Group is one of the top five quick service restaurant chains in the PRC serving Asian fast food and one of the top five ice-cream quick service restaurant chains in the PRC in terms of number of stores as at 31 December 2010. In addition, the Target Group is one of the top five quick service restaurant chain operators in Beijing, Shenyang and Dalian in terms of number of stores as at 30 September 2011.

(b) Financial overview

Set out below are the combined financial results of the Target Group for the six months ended 30 June 2011 and 2010, and the three years ended 31 December 2010 as extracted from the accountants' report of the Target Company contained in Appendix II to the Circular:

	For the six months ended 30 June 2011	**For the six months ended 30 June 2010**	**For the year ended 31 December 2010**	**For the year ended 31 December 2009**	**For the year ended 31 December 2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(unaudited)	(audited)	(audited)	(audited)
Revenue	743,117	562,374	1,234,212	955,925	778,041
Profit for the period/year	64,620	50,921	120,438	81,144	61,609

We noted from the above table that the Target Group's revenue and net profit had both recorded robust growth since the 2008 financial year. For the year ended 31 December 2009, the total revenue and net profit of the Target Group grew by approximately 22.9% and 31.7% respectively as compared to the prior year. From 2009 to 2010, the total revenue of the Target Group jumped from approximately HK$955.9 million to approximately HK$1,234.2 million, representing a significant enlargement of approximately 29.1%. During the same period under review, the Target Group's net profit also rose considerably by approximately 48.4% from approximately HK$81.1 million to approximately HK$120.4 million. Moreover, for the six months ended 30 June 2011, the revenue and net profit of the Target Group had both increased by approximately 32.1% and 26.9% respectively as compared to the corresponding period in the prior year.

Set out below are the audited combined financial position of the Target Group as at 30 June 2011 and 31 December 2010 as extracted from the accountants' report of the Target Company contained in Appendix II to the Circular:

	As at 30 June 2011	**As at 31 December 2010**
	HK$'000	*HK$'000*
Total assets	629,638	539,503
Current assets	425,985	342,702
Cash and bank balances	234,884	193,696
Total liabilities	(345,490)	(323,080)
Current liabilities	(320,221)	(304,707)
Bank loans	(25,284)	(24,722)
Total net assets	284,148	216,423

We further noted from the above table that the asset and liability position of the Target Group had remained relatively stable from 31 December 2010 to 30 June 2011. Moreover, while there had been an increase in the Target Group's bank loans from 31 December 2010 to 30 June 2011, its cash and bank balances increased during the said dates under review.

In respect of the management discussion and analysis of the Target Group for the six months ended 30 June 2011 and 2010, and the three years ended 31 December 2010, please refer to the section headed "Financial Information and Management Discussion and Analysis of the Target Group" of the Board Letter (the "**Target Group's MD&A**"). From the Target Group's MD&A, we noted that (i) the revenue for same-stores grew by approximately 1.5% from 2008 to 2009, by approximately 8.6% from 2009 to 2010, and by approximately 16.9% during the first half of 2011 as compared to the first half of 2010; (ii) the overall daily average revenue per same-store grew by approximately 1.8% from 2008 to 2009, by approximately 8.6% from 2009 to 2010, and by approximately 16.9% during the first half of 2011 as compared to the first half of 2010; and (iii) for the three years ended 31 December 2010 and the six months ended 30 June 2011, the time period required for payback of a store's capital investment is approximately two years of store operation which has been consistent with the guideline adopted by the Target Group regarding the opening of new stores. Furthermore, with reference to the Target Group's MD&A, the Target Group's business is subject to seasonal fluctuations. Historically, the percentage of the Target Group's revenue derived from the second and third quarters of a calendar year has been higher than the first and fourth quarters of the year reflecting higher frequency of dining out by the Target Group's customers in the summer than the first and fourth quarters of the year when the weather is cold. With this being the case, we are of the view that a simple comparison of the annualised revenue of the Target Group using its first half year results in 2011 with its actual total revenue in 2010 may not be appropriate.

(c) Competitive strengths

The Board Letter has explained in details that the Target Group's management believes that the following competitive strengths have contributed to the Target Group's success and will continue to drive its future growth:

- Well positioned to capitalise on favourable industry growth dynamics
- Leading quick service restaurant chain operator in the PRC with well-recognised brands of strong heritage
- High quality, safe and tasty food offering sold at affordable prices
- Efficient and integrated infrastructure leading to highly standardised and scalable business
- High growth potential with multiple growth opportunities
- Passionate, dedicated and experienced senior management team supported by motivated local staff

After studying the information relating to the management, operations and business model of the Target Group and given the past promising financial performance of the Target Group as summarised in the foregoing section of this letter, we are of the opinion that the Target Group is likely to possess the aforementioned competitive strengths. Leveraging on such competitive strengths, coupled with the optimistic prospects of the PRC's fast food and ice-cream fast food industries as illustrated under the section headed "Industry Overview" of the Board Letter (the "**Industry Overview**") and the forthcoming section of this letter, we concur with the Company that the Target Group is likely to maintain its growing momentum in the future.

To form a thorough understanding on the future development plan of the Enlarged Group, Shareholders are also advised to refer to the sub-section headed "Strategies of the Enlarged Group" of the Board Letter with regard to the proposed strategies of the Target Group for the purposes of further strengthening its position as a leading multi-brand quick service restaurant operator in the PRC.

Outlook of the PRC's fast food and ice-cream fast food industries

The Industry Overview has already included a comprehensive outline of the outlook of the PRC's fast food and ice-cream fast food industries, which we analysed and summarised as follows:

- The PRC economy recorded rapid growth from 2006 to 2010 as demonstrated by the strong increase in its GDP and GDP per capita
- Accelerated urbanisation and rising disposable income have led to improved living standards in the PRC

- Changes in consumption pattern in the PRC increased the number and frequency of consumers dining out
- Rapid growth has been recorded in the total sales of the PRC consumer food services industry and fast food industry with Asian cuisine as the most preferred
- The lower expected CAGR of the PRC fast food markets in the next five years is primarily due to an enlarging base and the market is expected to have strong potential to grow in absolute dollar terms
- Regional fast food markets and ice-cream fast food markets in Beijing, Hebei and Liaoning are expected to continue the growth in market size
- The proportion of chained stores in the PRC fast food industry in terms of total sales has been increasing from 2006 to 2010. Given that chained fast food players heavily focus on food quality and safety, many consumers have traded up to chained fast food players. This has driven the sales of chained fast food players especially those leading players who have built good reputation in the PRC, which has in turn further increased consumers' confidence in the leading players
- The ice-cream fast food industry is expected to have the highest growth rate when compared to other segments within the fast food industry in the PRC

Based on the foregoing, we understand that the prospects of the PRC's fast food and ice-cream fast food industries are likely to be optimistic. In turn, it also supports the growing momentum of the Target Group in the future.

Reasons for the Proposed Acquisition

As mentioned in the Board Letter, in order to improve the overall financial performance of the Company, the Directors have continued to review the Company's existing businesses and strived to improve its business operations and financial position by proactively seeking potential investment opportunities that could diversify the Company's existing business portfolio and broaden its source of income, and enhance value to the Shareholders. The Board believes that the Proposed Acquisition is in line with the development strategies of the Group and it will bring long-term and strategic benefits to the Group and that the Proposed Acquisition will enable the Group to:

- realise the stated corporate strategy of the Company
- derive additional earnings and cashflow contribution from the Target Group
- expand institutional investors' interest in the Company through the acquisition of a growth business to support a market re-rating of the Company
- combine capable and experienced leadership and senior management teams

Taking note of the above possible long-term and strategic benefits of the Proposed Acquisition as elaborated in the Board Letter, and having also considered (i) the challenging market environment of the Oils Business together with the Group's relatively stagnant financial performance over the past few years; (ii) the past promising financial performance of the Target Group; (iii) the competitive strengths of the Target Group as presented by the management of the Target Group together with the strategies of the Enlarged Group, including but not limited to, (a) to further penetrate into the existing markets and expand into selected cities within the Franchise Regions, (b) to drive same-store sales and profitability and (c) to strengthen marketing efforts of the current franchises and diversify brand portfolio; and (iv) the optimistic prospects of the PRC's fast food and ice-cream fast food industries with expected growth rates from 2011 to 2015 higher than that of the end market of the Company's existing business — edible oil market according to *Euromonitor*, we concur with the Company that the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Acquisition Agreement

On 1 December 2011, the Company (as the purchaser) and the Seller (a wholly-owned subsidiary of the Hung Family) entered into the Acquisition Agreement, pursuant to which the Seller has agreed to sell the Sale Shares, representing the entire issued share capital of the Target, and the Loan, to the Company, for the Consideration of HK$3,475 million.

The Consideration

The Consideration payable by the Company to the Seller will be HK$3,475 million, which will be satisfied upon Completion by the issue of the Convertible Securities in the equivalent principal amount to the Seller (of to its appointed nominee(s)). Upon payment of the Consideration at Completion, the Loan will be released by the Seller.

As confirmed by the Company, the Consideration was determined based on arm's length negotiations between the parties to the Acquisition Agreement with reference to the operating and financial performance of the Target Group as well as the prospects of the Target Group's business. When determining the Consideration, the Company has taken into account the Target Group's store network and leading position in its key existing markets, historical growth and profitability, as well as future growth potential. In addition, the Company has considered the remaining term of the Franchise Business under the existing agreements as well as the Target Group's long-term relationship with the Franchisors and the historical track record of expanding the scope of regions covered under the Franchise Business. Given the asset-light model of retail businesses, the Company believes that it is more relevant to evaluate the Target Group based on its earnings rather than its asset base.

Trading multiples analysis for the Proposed Acquisition

There are two commonly adopted trading multiples analyses which can normally be applied to assess the value of companies, and they are the price to earnings ratio ("**PER**") and the price to book ratio ("**PBR**"). To assess the fairness and reasonableness of the Consideration, we have only performed the PER analysis. We have not considered the PBR analysis due to the fact that the Consideration was primarily determined taking into account the financial and operating performance of the Target Group as well as the prospects of its business, and the retail business is fairly asset-light.

To perform the PER analysis, we have first attempted to search for companies (regardless if they are asset-light) which are listed on the Stock Exchange and engaged in similar lines of business as the Target Group, i.e. the operation of chained restaurants or the sale of ice-cream and dairy products in the PRC, and generates over 75% of their revenue from the said principal lines of business. Based on our independent research, to the best of our knowledge and as far as we are aware of, we identified ten comparable companies following such selection criteria and we noticed that only eight of them had been profitable during their respective most recent financial years. Those eight companies include Fairwood Holdings Limited (stock code: 52), Café de Coral Holdings Limited (stock code: 341), Ajisen (China) Holdings Limited (stock code: 538), Tao Heung Holdings Limited (stock code: 573), Future Bright Holdings Limited (stock code: 703), Little Sheep Group Limited (stock code: 968), Tang Palace (China) Holdings Limited (stock code: 1181) and China Mengniu Dairy Co. Limited (stock code: 2319). However, after discussion with the Company having a more in-depth study on the eight comparable companies' background, including (i) size of market capitalisation; (ii) geographical distribution of revenue; and (iii) similarity of their business model with the Target Group's operation with more than 50 chained restaurants in the PRC, we consider that only three of those comparable companies (the "**Market Comparable(s)**") could remain in the comparable companies list and they represent the complete list.

We noted that the Market Comparables do not share exactly the same business model and operations as the Target Group. For example, Café de Coral Holdings Limited ("**Café de Coral**") has its own brand and derives most of its revenue in Hong Kong; Ajisen (China) Holdings Limited ("**Ajisen**") has a perpetual franchise; while Little Sheep Group Limited ("**Little Sheep**") also has its own brand and is not engaged in the fast food business. Nevertheless, since as mentioned in the previous section of this letter, due to various factors and reasons, the lack of perpetual renewal term of the franchise agreements would not materially affect our opinion, the fact that the Market Comparable(s) either has/have its own brand or a perpetual franchise did not affect our selection. Among the Market Comparables, the business model and operations of Ajisen and the Target Group are most alike. Nonetheless, after balancing the fact that Café de Coral and Little Sheep also operate over 50 chained restaurants in the PRC and in order to maintain a reasonable population size of the comparable companies to give Shareholders an informed reference, we have included both of Café de Coral and Little Sheep as Market Comparables and we consider that the Market Comparables are representative and appropriate for comparison.

The PER analysis which we performed is based on the latest published financial information of the Market Comparables together with their respective closing prices on 1 December 2011 (being the date of the Sale and Purchase Agreement) (the "**Agreement Date**"). Set our below are our relevant findings:

Company name	**Stock Code**	**Principal business**	**Latest financial period**	**PER** *(Note)*
Café de Coral Holdings Limited	341	Operation of quick service restaurants, fast casual dining, institutional catering and specialty restaurant chains, and the food processing and distribution business.	1 October 2010 to 30 September 2011	21.8
Ajisen (China) Holdings Limited	538	Operation of restaurants and the manufacture and sales of noodle and related products.	1 July 2010 to 30 June 2011	21.1
Little Sheep Group Limited	968	Operation of full-service restaurants chain, provision of catering services and sale of related food products.	1 July 2010 to 30 June 2011	29.9
Maximum				**29.9**
Minimum				**21.1**
Average				**24.3**
The Proposed Acquisition			**1 July 2010 to 30 June 2011**	**25.9**

Note:

The net profit of each of the Market Comparables and the Target Group during their respective latest financial period was calculated as follows:

Café de Coral (year end: 31 March): net profit for the period from 1 October 2010 to 31 March 2011 based on its annual report for the year ended 31 March 2011 together with its interim report for the six months ended 30 September 2010, and net profit for the period from 1 April 2011 to 30 September 2011 based on its interim report for the six months ended 30 September 2011.

Ajisen (year end: 31 December): net profit for the period from 1 July 2010 to 31 December 2010 based on its 2010 interim report together with its 2010 annual report, and net profit for the period from 1 January 2011 to 30 June 2011 based on its 2011 interim report.

Little Sheep (year end: 31 December): net profit for the period from 1 July 2010 to 31 December 2010 based on its 2010 interim report together with its 2010 annual report, and net profit for the period from 1 January 2011 to 30 June 2011 based on its 2011 interim report.

The Target Group: net profit for the period from 1 July 2010 to 30 June 2011 based on the net profit of the Target Group for (i) the six months ended 30 June 2011; (ii) the year ended 31 December 2010; and (iii) the six months ended 30 June 2010.

Source: the Stock Exchange website (www.hkex.com.hk)

From the above table, we noted that the average PER as represented by the Market Comparables was approximately 24.3 times and with a range from approximately 21.1 times to 29.9 times. Thus, the PER of the Proposed Acquisition of approximately 25.9 times is within the PER range of the Market Comparables. In this relation, we also noted that the PER of the Proposed Acquisition is higher than the PER of Ajisen, which is the most suitable Market Comparable. Nonetheless, we understand that the closing share price of Ajisen had been dropping continuously by approximately 37.4% from HK$16.0 on 26 July 2011 when Ajisen made a clarification announcement (the "**Ajisen's Clarification Announcement**") regarding certain press articles' report that the soup base used in Ajisen's ramen business was made from soup powder and the nutrition content of such soup base was also questioned (the "**Negative News**"), to HK$10.02 on the Agreement Date. We noticed that (i) the closing share price of Ajisen had been following a general increasing trend in 2011 until the Ajisen's Clarification Announcement; and (ii) Ajisen's closing share price had dropped by a much larger extent of approximately 37.4% since the date of the Ajisen's Clarification Announcement to the Agreement Date when compared to Hang Seng Index which had dropped by approximately 15.8% during the same period, which may be affected by the Negative News. As such, we have also looked at Ajisen's PER based on the average daily closing share price of Ajisen in 2011 (up to and including the Agreement Date). Based on the said average daily closing share price of Ajisen of HK$13.0, Ajisen's PER becomes approximately 27.4 times and it is above the PER of the Proposed Acquisition.

Shareholders should also note that we consider that it is inappropriate to take into account the adjustment for the annual distribution of the Convertible Securities in calculating the PER of the Proposed Acquisition because (i) the issue of the Convertible Securities is the form of payment of the Consideration; (ii) the annual distribution is unrelated with the financial performance of the Target Group; and (iii) the maximum annual distribution is calculated based on the maximum total principal amount of the Convertible Securities while the conversion of them at any time will reduce the annual distribution the Company needs to pay.

In view of all of the above and as concluded in the previous section of this letter that the Target Group is likely to maintain its growing momentum in the future, we are of the opinion that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

Issue of the Convertible Securities

Pursuant to the Acquisition Agreement, the Company shall issue the Convertible Securities to satisfy the Consideration. As confirmed by the Company, the terms of the Convertible Securities, including the Conversion Price, have been negotiated on an arm's length basis. As extracted from the Board Letter, the principal terms of the Convertible Securities are summarised as follows:

Principal amount and issue price:	HK$3,475 million, 100% of which being the issue price of the Convertible Securities.
Maturity date:	There is no maturity date.
Distributions:	The Convertible Securities carry a distribution rate of 3.5% per annum of any outstanding principal amount. The Company, may at its sole discretion, elect to defer a distribution pursuant to the terms and conditions of the Convertible Securities. The deferred distribution shall be non-interest bearing.
Restriction on declaration of dividend:	If on any distribution payment date, payment of all distribution payments scheduled to be made on such date is not made in full, the Company shall not: (i) declare or pay any dividends on ordinary Shares; (ii) redeem, reduce, cancel, buy back any ordinary Shares, unless and until (a) the Company satisfied in full all outstanding arrears of distribution; or (b) it is permitted to do so by an extraordinary resolution of the Convertible Securities Holders.
The Conversion Price:	Initially HK$0.37 per Conversion Share, subject to adjustment as provided for in the terms and conditions of the Convertible Securities.
Conversion Price adjustment:	The Conversion Price will be subject to adjustment for, among other things, subdivision, re-classification or consolidation of Shares, capitalisation of profits or reserves, issue of Shares by way of scrip dividend, bonus issues, rights issues of Shares or other securities or options over Shares, capital distributions and other dilutive events. In case of other dilutive events, the application of the Conversion Price adjustment is subject to a discount threshold of 10% of the current market price. The adjusted Conversion Price will in any event be above the par value of the Shares.

Conversion period: Any time from the date of the issue of the Convertible Securities, subject to certain conditions as provided in the terms and conditions of the Convertible Securities.

Restriction on conversion: The Conversion Rights shall not be exercised by the Convertible Securities Holder(s), or when it is exercised by virtue of a conversion notice having been given, the Company shall not be obliged to issue any Conversion Shares but may treat that conversion notice as invalid, if it comes to the notice of the Company that immediately following such conversion, the Company will be unable to meet the public float requirement under the Listing Rules (the "**Public Float Restriction**").

Automatic conversion: At any time when a Convertible Securities Holder is not a "connected person" under the Listing Rules, a principal amount of the Convertible Securities which upon conversion will result in the Convertible Securities Holder holding in aggregate just under 10% of the issued share capital of the Company shall be automatically converted into Conversion Shares (the "**Automatic Conversion**").

The Company will be responsible for administering the mechanism of the conversion. If at any time a Convertible Securities Holder disposes the Shares or there is any change to the Company's issued share capital (e.g. the issued share capital has been enlarged) which results in a decrease in the shareholding of such Convertible Securities Holder, the Company will exercise its right under the terms and conditions of the Convertible Securities to convert the remaining portion of the Convertible Securities held by such Convertible Securities Holder into Shares to the extent that upon conversion the total number of Shares held by such Convertible Securities Holder shall be just under 10% of the issued share capital of the Company.

Pre-emption right: The Convertible Securities are freely transferable. Not more than 20 or less than 15 business days (as defined in the terms and conditions of the Convertible Securities) prior to the Convertible Securities Holder(s) delivering a certificate under the terms of the Convertible Securities to the Company or the registrar (as the case may be) for the transfer of the Convertible Securities, the Convertible Securities Holder(s) must notify the Company of his/her/their intention to transfer the Convertible Securities in writing. Following the receipt by the Company of such notice, the Company may by no later than 15 business days after it has received the notice, elect to purchase and cancel all or some of the Convertible Securities of the subject of the relevant notice at the price specified in the notice (which is the price as agreed between the Convertible Securities Holder(s) and the proposed transferee(s)). The Company must complete the purchase of the relevant Convertible Securities within 15 business days after it has informed the Convertible Securities Holder(s) that it has elected to purchase the Convertible Securities.

The maximum number of Shares which may be issued upon exercise of the Convertible Rights in full is 9,391,891,892 Shares, representing approximately 18 times and 94.8% of the issued share capital of the Company as at the Latest Practicable Date and the enlarged issued share capital of the Company, respectively.

The Conversion Price

The initial Conversion Price of HK$0.37 per Consideration Share represents:

(i) a discount of approximately 21.3% to the closing price of the Shares of HK$0.47 as quoted on the Stock Exchange on 23 December 2011, being the last trading day before the Latest Practicable Date;

(ii) a discount of approximately 15.9% to the closing price of the Shares of HK$0.44 as quoted on the Stock Exchange on the Last Trading Day;

(iii) approximately the average closing price of approximately HK$0.37 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

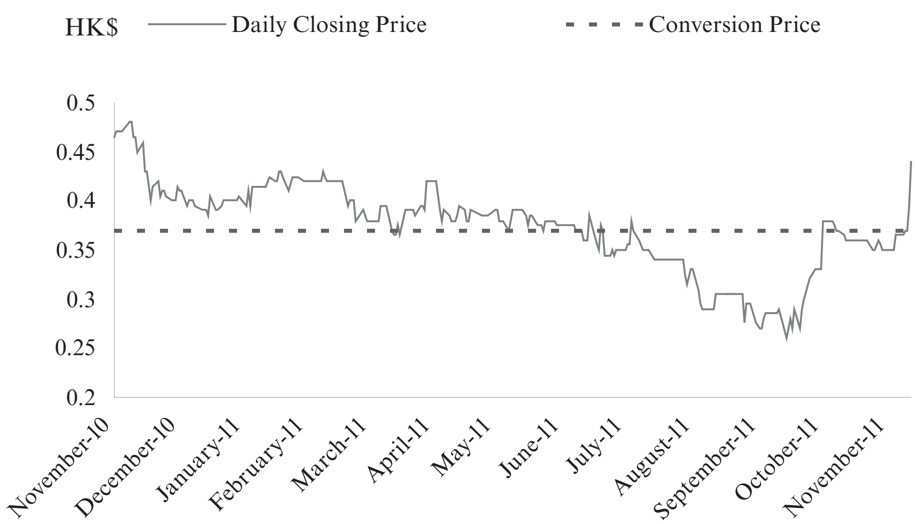
(iv) approximately the average closing price of approximately HK$0.37 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;

(v) a premium of approximately 12.1% over the average closing price of approximately HK$0.33 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the Last Trading Day; and

(vi) a premium of approximately 5.7% over the average closing price of approximately HK$0.35 per Share as quoted on the Stock Exchange for the last 180 consecutive trading days up to and including the Last Trading Day.

Set out below is a chart showing the movement of the daily closing price of the Shares as quoted on the Stock Exchange from 1 November 2010 up to and including the Last Trading Day (the "**Review Period**"):

Hop Hing Group Holdings Limited (Stock code: 47)



Source: the Stock Exchange website (www.hkex.com.hk)

As shown by the above table, the daily closing prices of the Shares ranged from HK$0.26 per Share to HK$0.48 per Share. There was 262 trading days during the Review Period, and the Conversion Price is above the closing price of the Shares in 109 trading days. We further noticed that the Share price had been moving downwards persistently from November 2010 onwards until early October 2011 when it abruptly increased and closed at HK$0.44 on the Last Trading Day. The Company announced the 2011 interim results of the Group on 29 August 2011 and any impact on the Share price would have been fully reflected within a few trading days after the release of the results. Furthermore, save and except for the announcement regarding the termination of a joint venture agreement dated 30 September 2011, the Company had not entered into any material contracts in relation to the Group's operation and business thereafter up to the Last Trading Day. We are therefore of the view that the recent short-term rise and fluctuation of the Share price may largely be attributable to investors' speculation on the Proposed Acquisition and/or the overall unstable stock market sentiment, rather than relating to the pricing fundamentals of the Company, such as its business and historical financial performance. For this reason, we consider that the current market Share price may not serve as a reliable benchmark for assessing the fairness and reasonableness of the Conversion Price.

Market comparables for the Convertible Securities

We have identified, to the best of our knowledge and as far as we are aware of, 14 transactions, during the period from 1 August 2011 to the Agreement Date, by listed companies in Hong Kong which involved the issue of convertible bonds/notes with fixed maturity dates (the "**CN Comparables**"). Shareholders should note that the businesses, operations and prospects of the Company are not the same as the CN Comparables and we have not conducted any in-depth investigation into the businesses and operations of the CN Comparables. The CN Comparables are hence only used to provide a general reference for the common market practice of companies listed on the Stock Exchange in transactions which involved the issue of convertible bonds/notes with fixed maturity dates. The table below illustrates our relevant findings:

Company name	Stock code	Date of announcement	Term	Annual interest rate	Premium/(Discount) of the conversion price over/(to) closing price per share on the last trading day prior to date of agreement/announcement in relation to the issue of the respective convertible bonds/notes	Connected Transaction (Yes/No)
			Years	*%*	*%*	
ZMAY Holdings Limited	8085	1 December 2011	3	Nil	0.0	No
China Oriental Culture Group Limited	2371	24 November 2011	5	Nil	(11.3)	No
Sino Gas Group Limited	260	9 November 2011	3	2.0	0.0	Yes
ABC Communications (Holdings) Limited	30	8 November 2011	2	4.0	(15.8)	No
Bao Yuan Holdings Limited	692	2 November 2011	3	2.0	(16.7)	No
South China Holdings Limited	265	19 October 2011	5	Nil	2.4	No
China Boon Holdings Limited	922	13 October 2011	2	10.0	136.4	No
Tsun Yip Holdings Limited	8356	11 October 2011	3	5.0	(59.6)	No
China Nickel Resources Holdings Company Limited	2889	9 October 2011	3	Nil	40.9	Yes
Oriental Ginza Holdings Limited	996	6 October 2011	5	Nil	(13.5)	No
China Grand Forestry Green Resources Group Limited *(Note)*	910	30 September 2011	5	Nil	4.9	No
China Grand Forestry Green Resources Group Limited *(Note)*	910	30 September 2011	5	Nil	4.9	No
Mobile Telecom Network (Holdings) Limited	8266	28 September 2011	Information not available	Nil	(5.8)	No
New Environmental Energy Holdings Limited	3989	4 August 2011	1	Nil	101.8	Yes
Minimum				0.0	(59.6)	
Maximum				10.0	136.4	
Average				1.6	12.1	
The Company	47	1 December 2011	No maturity	3.5	(15.9)	Yes

Note: China Grand Forestry Green Resources Group Limited (Stock code: 910) entered into two acquisition agreements on 26 July 2011, pursuant to which the company will issue two convertible notes in the principal amounts of HK$490,000,000 and HK$210,000,000 respectively.

Source: the Stock Exchange website (www.hkex.com.hk)

We have also identified, to the best of our knowledge and as far as we are aware of, four transactions, during the period from 1 June 2010 to the Agreement Date, by listed companies in Hong Kong which involved the issue of convertible securities without maturity dates (the "**Perpetual Comparables**"). Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Perpetual Comparables and we have not conducted any in-depth investigation into the businesses and operations of the Perpetual Comparables. The Perpetual Comparables are hence only used to provide a general reference for the common market practice of companies listed on the Stock Exchange in transactions which involved the issue of convertible securities without maturity dates. The table below illustrates our relevant findings:

Company name	Stock code	Date of announcement	Annual interest rate	Premium/(Discount) of the conversion price over/(to) closing price per share on the last trading day prior to date of agreement/announcement in relation to the issue of the respective perpetual convertible securities	Connected transaction (Yes/No)
			%	%	
CATIC Shenzhen Holdings Limited	161	21 November 2011	1.0	10.0	Yes
NagaCorp Limited	3918	13 June 2011	Variable *(Note)*	(12.5)	Yes
CATIC Shenzhen Holdings Limited	161	3 December 2010	1.0	6.3	Yes
Minmetals Resources Limited	1208	19 October 2010	1.0	(45.1)	Yes
Minimum			Undetermined	(45.1)	
Maximum			Undetermined	10.0	
Average			Undetermined	(10.3)	
The Company	47		3.5	(15.9)	Yes

Note: According to the announcement for the issue of the relevant convertible securities, the interest rate is variable and payable on "as converted" basis.

Source: the Stock Exchange web-site (www.hkex.com.hk)

(a) The Conversion Price

The conversion prices of the CN Comparables ranged from a discount of approximately 59.6% to a premium of approximately 136.4% to/over the closing prices of their shares on the last trading days prior to the date of the relevant agreements/release of the announcements in relation to the issue of the respective convertible bonds/notes. Nonetheless, it is also obvious that among the CN Comparables, China Boon Holdings Limited and New Environmental Energy Holdings Limited are both outliers, and if the issue statistics of these two companies are excluded, the range of discount/premium represented by the conversion prices of the CN Comparables would become a discount of approximately 59.6% to a premium of 40.9%. The Conversion Price, which represents a discount of approximately 15.9% to the closing price of the Shares on the Last Trading Day, is hence within the said market range.

The conversion prices of the Perpetual Comparables ranged from a discount of approximately 45.1% to a premium of approximately 10% to/over the closing prices of their shares on the last trading days prior to the date of the relevant agreements/release of the announcements in relation to the issue of the respective perpetual convertible securities. The Conversion Price, which represents a discount of approximately 15.9% to the closing price of the Shares on the Last Trading Day, is hence within the said market range.

The results of the market comparisons as detailed above are for reference only and given that (i) the Conversion Price is within the range of closing prices of the Shares during the Review Period; (ii) the Share price had been moving downwards persistently notwithstanding its recent short-term rise and fluctuation; and (iii) the current market Share price may not serve as a reliable benchmark for assessing the fairness and reasonableness of the Conversion Price, we are of the opinion that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

(b) Annual distribution

The interest rates of the CN Comparables ranged from nil to 10% whereas the interest rates of the Perpetual Comparables are mostly 1%. Thus, the distribution rate of the Convertible Securities of 3.5% is within the market range of the CN Comparables but above the 1% interest rate of the Perpetual Comparables mentioned above. We noted that the market capitalisation of CATIC Shenzhen Holdings Limited (stock code: 161) and Minmetals Resources Limited (stock code: 1208) are substantially larger than the Company and may hence enjoy lower financing cost. However, we consider that the results of such market comparisons are for reference only. Upon our enquiry, we were advised by the Company that the weighted average effective interest rate of the Group's existing interest-bearing bank loans is around 5.0%, which is higher than the distribution rate of the Convertible Securities.

In respect of the above, we noted that based on the total principal amount of the Convertible Securities of HK$3,475 million and the distribution rate of 3.5%, the Company will need to pay, before any conversion of the Convertible Securities, an annual distribution of approximately HK$121.6 million. Despite such huge amount of maximum annual distribution which the Company may need to pay, taking into account the fact that (i) the size of the Proposed Acquisition is large as compared to the current market capitalisation of the Company which significantly limits the available financing options available to the Company to fund the Proposed Acquisition; (ii) the Company would not be able to meet the public float requirement under the Listing Rules should the Consideration be settled by the issue of consideration Shares to the Seller; (iii) for debt financing, the rate of distribution of 3.5% as aforementioned is lower than the average rate that the Company can borrow from the capital market; and (iv) the Company is not required to pay any cash consideration upfront through the issuance of the Convertible Securities, we are of the view that the issue of the Convertible Securities with the aforesaid maximum amount of annual distribution payment is justifiable.

In view of also that (i) the Company is given the option under the terms and conditions of the Convertible Securities to defer any payment of the distributions without incurring interest which means the Group will have significant financial flexibility under the term of the Convertible Securities and the structure of the Proposed Acquisition while enjoying the scale and earnings accretion associated with the Proposed Acquisition; and (ii) the Company will no longer be required to pay any distribution relating to the Convertible Securities upon any post-conversion of the Convertible Securities, we consider that annual distribution rate of the Convertible Securities is fair and reasonable so far as the Independent Shareholders are concerned.

Other terms of the Convertible Securities

(c) Maturity date

The Convertible Securities are perpetual in nature and none of the Convertible Securities is redeemable by the Convertible Securities Holder(s) in general. We consider that such arrangement is favourable to the Company on the basis that (i) it will not create undue pressure on the Enlarged Group's liquidity as if redemption of the Convertible Securities is allowed to take place; and (ii) it can enlarge the capital base of the Enlarged Group as the Convertible Securities will be treated as purely equity of the Company.

On the other hand, the Convertible Securities are also not early redeemable by the Company. According to the Company, in the event that the Company wants to the repurchase such Convertible Securities in the future, the Company can reach bilateral arrangement with the then Convertible Securities Holders subject to the relevant Listing Rules requirements. From the CN Comparables as well as the Perpetual Comparables, we noted that it is not unusual that a convertible bond/note/security does not allow any early redemption by its issuer. As such, we consider that the Convertible Securities not being early redeemable by the Company is on normal commercial terms and thus is fair and reasonable for the Independent Shareholders.

(d) Restriction on declaration of dividend

Pursuant to the terms and conditions of the Convertible Securities, the Company shall not declare or pay any dividends on ordinary Shares unless and until the Company satisfied in full all outstanding arrears of distribution. Such restriction on declaration of dividend would be detrimental to the Shareholders, however as balanced by the fact that (i) the Target Group is expected to contribute substantially all of the net profit of the Company after the Proposed Acquisition and as such any dividend payable by the Company will substantially be contributed by the Target Group's cashflow; (ii) dividend return is only one kind of return to the Shareholders' investment in the Company and Shareholders could also be benefited from the possible future growth of the Enlarged Group which may be reflected in the increase in the future Share price; and (iii) payment of dividend (if any) depends on the dividend payment policy of the Company which is affected by various other factors and as a matter of fact, the Company does not have a track record of paying dividends in recent years end, we are of the opinion that the restriction on declaration of dividend is acceptable.

(e) Conversion Price adjustment

From the CN Comparables as well as the Perpetual Comparables, we noted that it is not unusual for the conversion price of a convertible bond/note/security to be subject to adjustment as a result of the dilutive events or payment of dividend being applicable for the adjustment of the Conversion Price. As such, we consider that the Conversion Price adjustment is a customary term for convertible bond/note/security in a fair and commercial market based on arm's length negotiations to ensure that the holder(s) of the relevant convertible bond/note/security is/are not worse off and thus is on normal commercial terms.

(f) The Automatic Conversion and Public Float Restriction

Conversion of the Convertible Securities is subject to the Automatic Conversion together with the Public Float Restriction. With the Automatic Conversion feature in place, additional Shares will be issued once the Convertible Securities Holders convert their Convertible Securities into Shares, which may result in the Shares being highly concentrated in a few Shareholders' hands. However, more Shares will be tradable and thus the Company believes that it would enhance the trading volume and diversify the equity base of the Company. As the Public Float Restriction could also preserve the public float of the Company, we consider that both of the aforesaid provisions are beneficial to the Company.

(g) Pre-emption right

Prior to a Convertible Securities Holder transferring the Convertible Securities, he/she must notify the Company of his/her intention to transfer the Convertible Securities by a notice in writing. Following the receipt by the Company of such notice, the Company may elect to purchase and cancel all or some of the Convertible Securities at the price specified in the notice, which is the price agreed between the holder and proposed transferee of the Convertible Notes. Given that such price is the agreed price for transferral of the Convertible Securities, it is justifiable that the Company must also pay the same price as paying a higher price would be detrimental to the Company while the Convertible Securities Holder would not be willing to sell the Convertible Securities to the Company if the price is lower. Furthermore, since the Company will have the pre-emption right, but not obligation, to purchase or cancel the Convertible Securities proposed to be transferred should it deems that the transaction is beneficial to the Company and Shareholders at the time, we are of the opinion that such right is advantageous to the Company.

Having considered all of the foregoing features of the Convertible Securities (including the lack of early redemption clause, the restriction on declaration of dividend by the Company, the Conversion Price adjustment clause and the Automatic Conversion clause), we consider that although certain features of the Convertible Securities may not be of straight benefits to the Company and/or the Shareholders, we concur with the Company that the commercial benefits of the Convertible Securities as a whole outweigh the negative effect of such features of the Convertible Securities and we consider that the terms of the Acquisition Agreement (including the terms of the Convertible Securities) are fair and reasonable so far as the Independent Shareholders are concerned.

Possible dilution effect on the shareholding interests of the public Shareholders

The table below demonstrates the possible shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon Completion and conversion of the Convertible Securities with the Public Float Restriction; and (iii) upon Completion and full conversion of the Convertible Securities:

Name of Shareholder	**As at the Latest Practicable Date**		**Upon Completion and conversion of the Convertible Securities with the Public Float Restriction**		**Upon Completion and full conversion of the Convertible Securities** *(Note 2)*	
	No. of Shares	*Approximate % of issued Shares*	*No. of Shares*	*Approximate % of issued Shares*	*No. of Shares*	*Approximate % of issued Shares*
The Hung Family	339,229,231	65.8	339,229,231	50.8	339,229,231	3.4
The Seller			152,435,760	22.8	9,391,891,892	94.8
Sub-total	*339,229,231*	*65.8*	*491,664,991*	*73.6*	*9,731,121,123*	*98.2*
Other Directors *(Note 1)*	9,407,720	1.8	9,407,720	1.4	9,407,720	0.1
Public Shareholders	167,024,237	32.4	167,024,237	25.0	167,024,237	1.7
Total	**515,661,188**	**100**	**668,096,948**	**100**	**9,907,553,080**	**100**

Notes:

1. Other Directors include Mr. Wong Yu Hong, Philip, Mr. Sze Tsai To, Robert, Mr. Cheung Wing Yui, Edward, Mr. Seto Gin Chung, John and Mr. Lee Pak Wing.

2. The shareholdings are for illustrative purpose only due to the Public Float Restriction.

As demonstrated by the above table, the shareholding interests of the public Shareholders and the existing public Shareholders in the Company would be diluted by approximately 7.4 percent point and 30.7 percent point respectively as a result of the issue and conversion of the Convertible Securities with the Public Float Restriction. In this regard, taking into account (i) the reasons for the Proposed Acquisition and the possible benefits of the Proposed Acquisition to the Group; and (ii) the respective terms of the Acquisition Agreement and the Convertible Securities being fair and reasonable, we are of the view that the aforementioned levels of dilution to the shareholding interests of the public Shareholders are acceptable.

Nevertheless, it should also be noted that the shareholding interests of the public Shareholders in the Company may be subject to further dilution in the event that the Hung Family sells its Shares and further convert the Convertible Securities into Conversion Shares.

Possible financial effects of the Proposed Acquisition

Upon Completion, the Target will become a wholly-owned subsidiary of the Company and the assets, liabilities and the financial results of the Target will be consolidated into the consolidated financial statements of the Company.

The unaudited pro-forma financial information of the Enlarged Group (the "**Pro-forma Information**") which have been prepared for the purpose of illustrating the effect of the Proposed Acquisition, as if it had taken place (i) on 30 June 2011 for the unaudited pro-forma consolidated statement of financial position; and (ii) on 1 January 2010 for the unaudited pro-forma consolidated income statement and the unaudited pro-forma consolidated statement of cash flows, is included in Appendix III to the Circular.

Effect on net asset value ("NAV")

As extracted from the 2011 Interim Report, the unaudited consolidated NAV of the Group (including minority interest) was approximately HK$491.2 million as at 30 June 2011. According to the Pro-forma Information, the unaudited consolidated NAV of the Enlarged Group (including minority interest) would become approximately HK$804.7 million.

Effect on earnings

Based on the total principal amount of the Convertible Securities of HK$3,475 million and the distribution rate of 3.5%, the Company will need to pay, before any conversion of the Convertible Securities, an annual distribution of approximately HK$121.6 million which will be treated as if it was "dividend payment".

In light of that the Company may at its sole discretion elect to defer a distribution to the Convertible Securities Holders under the terms and conditions of the Convertible Securities, the Company can monitor the timing of distribution based on its financial position such that the distribution of the Convertible Securities would not create any financing pressure to the Enlarged Group. However, the fact that the Company can defer the distribution payment would not remove its obligation to settle such distribution payment. In the event that the Target Group's business underperforms or is unable to generate sufficient cash inflow for the Group to pay off the annual distribution, the Company can choose to defer the distribution payment indefinitely. However, when the Company has not satisfied in full all outstanding arrears of the distributions, it will be restricted to declare or pay any dividends to the Shareholders pursuant to the terms and conditions of the Convertible Securities.

At the same time, given that the Target Group is likely to maintain its growing momentum in the future, the Company expected that the Proposed Acquisition would have a positive impact on the future earnings of the Enlarged Group.

Effect on gearing and working capital

As extracted from the 2011 Interim Report, the Group's gearing ratio (expressed as a percentage of interest-bearing bank and other loans over equity attributable to equity holders of the Company) was approximately 34% as at 30 June 2011. From the Pro-forma Information, the interest-bearing bank and other loans, and equity attributable to equity holders of the Company would become approximately HK$192.1 million and HK$799.8 million respectively upon Completion. Consequently, upon Completion, the gearing ratio of the Enlarged Group would be reduced to approximately 24%.

Moreover, as extracted from the 2011 Interim Report, the Group's cash and cash equivalents as stated in its unaudited condensed consolidated statement of financial position was approximately HK$99.6 million as at 30 June 2011. According to the Pro-forma Information, the cash and cash equivalents of the Enlarged Group would be increased to approximately HK$334.5 million. As also confirmed by the Company, since the Proposed Acquisition does not incur any cash consideration, the Proposed Acquisition would not lead to any immediate material change in the Enlarged Group's working capital position, without taking into account the effects resulting from possible and proposed dividend payment of the Target Group as illustrated below.

Effects resulting from possible and proposed dividend payment of the Target Group

As stated in the Board Letter, the Seller will be entitled to the dividend declared out of the Target Group's net profit for the year ended 31 December 2011. As stated in the accountants' report on the Target Group contained in Appendix II to the Circular, on 30 November 2011 and 20 December 2011, the respective Target Group Companies declared interim dividends of HK$144.5 million and HK$72.1 million respectively. The interim dividends were declared out of the respective Target Group Companies' retained earnings available on 31 October 2011, and are funded by the Target Group companies' existing cash, which amounted to approximately HK$234.9 million as at 30 June 2011. The aforesaid possible and proposed dividends are expected to result in a decrease in the Target Group's total assets, net asset value, cash balance and working capital, and increase its gearing ratio (defined as debt to total equity), which has not been taken into account in the Pro-forma Information. Upon Completion, the above financial impact associated with the possible and proposed dividends will be reflected in the consolidated financial statements of the Company.

As referred to in the Board Letter under the sub-section headed "Strategies of the Enlarged Group", the Target Group currently expects its future capital expenditure for opening of new Franchise Stores in 2012 to be approximately HK$150 million. The Enlarged Group expects to fund such capital expenditure by the Target Group's internally generated cash during 2012 as well as external bank facilities. Under the terms and conditions of the Convertible Securities, the Enlarged Group may, at its sole discretion, elect to defer a distribution. To the extent that there is excess cash available after satisfying the expected capital expenditure and subject to the Enlarged Group's sole discretion after assessing the Enlarged Group's then financial position, the Enlarged Group will elect to pay the distribution of the Convertible Securities.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Company will be upon Completion.

Risk factors

The Proposed Acquisition may increase the level of risk exposure of the Enlarged Group inevitably. Independent Shareholders should be aware of the risk factors, which may not be exhaustive, relating to the Proposed Acquisition as set out under the section headed "Risk Factors" of the Board Letter. According to the Company, it will continue to adopt ongoing control measures as implemented by the Target Group before the Proposed Acquisition and will identify other effective measures to minimise such risks as and when necessary. We are of the view that Independent Shareholders should bear in mind all of those risk factors when considering the Proposed Acquisition as they may have different risk preference and are of varied risk tolerance level.

RECOMMENDATION

Having taken into account the above factors and reasons, we are of the opinion that (i) the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Proposed Acquisition, which may or may not have any immediate benefit to the Group (especially that the maximum annual distribution of the Convertible Securities is even higher than the total net profit of the Target Group in 2010) but can help the Group to diversify its business into the PRC's fast food and ice-cream fast food industries with optimistic prospects as compared to the challenging market environment of the Oils Business and hence would be beneficial to the Group's overall business development and financial performance, is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Guangdong Securities Limited
Graham Lam
Managing Director

1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the assets and liabilities and results of the Group as at and for each of the three years ended 31 December 2010 as extracted from the annual reports of the Company and assets and liabilities of the Group as at 30 June 2011 and the Group's results for the six months ended 30 June 2011 as extracted from the interim report of the Company, with certain comparative figures reclassified to conform with the presentation of the latest financial statements.

Consolidated Income Statement

	Audited Year ended 31 December			Unaudited Six months ended 30 June
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	1,013,020	861,057	769,147	385,257
Direct cost of stocks sold and services provided	(788,215)	(639,298)	(558,277)	(283,546)
Other income and gains, net	11,081	6,280	1,707	1,290
Other production and service costs (including depreciation and amortisation)	(58,751)	(54,038)	(53,961)	(27,188)
Selling and distribution costs	(97,308)	(102,447)	(98,927)	(50,130)
General and administrative expenses	(46,384)	(43,862)	(41,120)	(22,628)
PROFIT FROM OPERATING ACTIVITES	33,443	27,692	18,569	3,055
Finance costs	(13,111)	(9,718)	(8,535)	(5,001)
Share of losses of associates	(182)	(23)	—	—
PROFIT/(LOSS) BEFORE TAX	20,150	17,951	10,034	(1,946)
Income tax expense	(4,275)	(3,435)	(3,500)	(1,034)
PROFIT/(LOSS) FOR THE YEAR/ PERIOD	15,875	14,516	6,534	(2,980)
ATTRIBUTABLE TO:				
Equity holders of the Company	14,698	12,784	7,179	(1,892)
Non-controlling interests	1,177	1,732	(645)	(1,088)
	15,875	14,516	6,534	(2,980)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY				
Basic	HK3.13 cents	HK2.53 cents	HK1.40 cents	HK(0.37 cent)
Diluted	HK2.97 cents	HK2.40 cents	HK1.27 cents	HK(0.37 cent)

Consolidated Statement of Financial Position

	Audited 31 December			Unaudited 30 June
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	248,700	232,706	226,743	212,002
Prepaid land lease payments	27,462	26,784	27,017	26,973
Trademarks	123,968	124,162	124,274	124,278
Investments in associates	(1,607)	(1,381)	—	—
Deferred tax assets	3,016	2,033	989	989
Total non-current assets	401,539	384,304	379,023	364,242
CURRENT ASSETS				
Stocks	158,386	131,296	158,028	151,571
Accounts receivable	120,289	106,332	109,928	83,643
Prepayments, deposits and other receivables	19,139	19,255	21,561	31,352
Non-current assets held for disposal	—	—	—	10,706
Tax recoverable	1,816	326	1,511	1,400
Pledged bank deposits	10,466	10,961	43,477	49,576
Cash and cash equivalents	42,337	114,364	80,608	99,571
Total current assets	352,433	382,534	415,113	427,819
CURRENT LIABILITIES				
Accounts payable	54,954	39,317	60,613	37,971
Bills payable	28,636	36,538	17,925	38,253
Other payables and accrued charges	43,561	42,508	42,857	54,320
Interest-bearing bank and other loans	162,083	165,419	176,191	166,831
Tax payable	880	286	730	1,598
Total current liabilities	290,114	284,068	298,316	298,973
NET CURRENT ASSETS	62,319	98,466	116,797	128,846
TOTAL ASSETS LESS CURRENT LIABILITIES	463,858	482,770	495,820	493,088
NON-CURRENT LIABILITIES				
Deferred tax liabilities	2,651	2,269	1,890	1,890
NET ASSETS	461,207	480,501	493,930	491,198

	Audited 31 December			Unaudited 30 June
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
EQUITY				
Equity attributable to equity holders of the Company				
Issued share capital	49,331	51,095	51,154	51,155
Reserves	400,659	419,958	433,875	435,113
	449,990	471,053	485,029	486,268
Non-controlling interests	11,217	9,448	8,901	4,930
Total equity	461,207	480,501	493,930	491,198

No dividend has been paid or declared by the Company for each of the three years ended 31 December 2010 and six months ended 30 June 2011.

No qualified opinion has been issued by the Company's auditors for the three years ended 31 December 2010.

Consolidated Statement of Cash Flows

	Audited Year ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	20,150	17,951	10,034
Adjustment for:			
Interest income	(533)	(475)	(629)
Interest expenses	13,111	9,718	8,535
Depreciation	19,598	17,455	17,694
Amortisation of prepaid land lease payments	673	682	687
Impairment of accounts receivable	916	296	31
Reversal of impairment of accounts receivable	—	(439)	—
Gain on disposal of items of property, plant and equipment, net	(8,255)	(3)	(655)
Write-off of loans due to non-controlling interests	—	(543)	—
Share of losses of associates	182	23	—
Equity-settled share option expense	—	4,040	2,266
	45,842	48,705	37,963
Decrease/(increase) in stocks	(19,035)	27,090	(25,087)
Decrease/(increase) in accounts receivable	(12,123)	14,100	(2,706)
Decrease/(increase) in prepayments, deposits and other receivables	4,300	(116)	(1,528)
Decrease in amounts due to associates	—	(249)	(1,381)
Increase/(decrease) in accounts payable	(9,387)	(15,637)	20,832
Increase/(decrease) in bills payable	(1,902)	7,902	(19,536)
Decrease in other payables and accrued charges	(9,533)	(1,053)	(630)
Cash generated from/(used in) operations	(1,838)	80,742	7,927
Interest received	533	475	629
Hong Kong profits tax paid	(2,481)	(3,240)	(3,367)
Overseas tax refunded/(paid)	(1,928)	1,302	(209)
Net cash flows from/(used in) operating activities	(5,714)	79,279	4,980

	Audited		
	Year ended 31 December		
	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	(4,201)	(1,471)	(6,479)
Proceeds from disposal of items of property, plant and equipment	10,792	13	753
Increase in trademarks	(250)	(194)	(112)
Decrease/(increase) in time deposits with original maturity of more than three months when acquired	—	(43,000)	31,235
Net cash flows from/(used in) investing activities	6,341	(44,652)	25,397
CASH FLOWS FROM FINANCING ACTIVITES			
Interest paid	(13,111)	(9,718)	(8,535)
Net drawing of bank and other loans	8,191	3,336	7,128
Increase in pledged bank deposits	(1,305)	(495)	(32,516)
Issue of shares, including share premium, net	14,362	4,235	118
Repayment of loans due to non-controlling interests	—	(2,958)	—
Net cash flows from/(used in) financing activities	8,137	(5,600)	(33,805)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	8,764	29,027	(3,428)
Cash and cash equivalents at 1 January	33,573	42,337	71,364
Effect of foreign exchange rates changes, net	—	—	907
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	42,337	71,364	68,843
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	42,337	114,364	80,608
Less: Time deposit with original maturity of more than three months when acquired	—	(43,000)	(11,765)
Cash and cash equivalents as stated in the consolidated statement of cash flows	42,337	71,364	68,843

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMEBER 2010

The following is the audited financial statements of the Group for the year ended 31 December 2010, together with the comparative figures for the year ended 31 December 2009 and the accompanying notes to the audited financial statements of the Group for the year ended 31 December 2010 as extracted from the annual report of the Group for the year ended 31 December 2010.

Consolidated Income Statement
Year ended 31 December 2010

	Notes	2010 *HK$'000*	2009 *HK$'000*
TURNOVER	5	769,147	861,057
Direct cost of stocks sold and services provided		(558,277)	(639,298)
Other income and gains, net	5	1,707	6,280
Other production and service costs (including depreciation and amortisation of HK$18,381,000 (2009: HK$18,137,000))		(53,961)	(54,038)
Selling and distribution costs		(98,927)	(102,447)
General and administrative expenses		(41,120)	(43,862)
PROFIT FROM OPERATING ACTIVITIES	6	18,569	27,692
Finance costs	7	(8,535)	(9,718)
Share of losses of associates		—	(23)
PROFIT BEFORE TAX		10,034	17,951
Income tax expense	10	(3,500)	(3,435)
PROFIT FOR THE YEAR		6,534	14,516
ATTRIBUTABLE TO:			
Equity holders of the Company	11	7,179	12,784
Non-controlling interests		(645)	1,732
		6,534	14,516
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12		
Basic		HK1.40 cents	HK2.53 cents
Diluted		HK1.27 cents	HK2.40 cents

Consolidated Statement of Comprehensive Income
Year ended 31 December 2010

	2010	2009
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	6,534	14,516
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	4,511	4
OTHER COMPREHENSIVE INCOME FOR THE YEAR	4,511	4
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	11,045	14,520
ATTRIBUTABLE TO:		
Equity holders of the Company	11,592	12,788
Non-controlling interests	(547)	1,732
	11,045	14,520

Consolidated Statement of Financial Position
31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	226,743	232,706
Prepaid land lease payments	14	27,017	26,784
Trademarks	15	124,274	124,162
Investments in associates	17	—	(1,381)
Deferred tax assets	25	989	2,033
Total non-current assets		379,023	384,304
CURRENT ASSETS			
Stocks	19	158,028	131,296
Accounts receivable	20	109,928	106,332
Prepayments, deposits and other receivables		21,561	19,255
Tax recoverable		1,511	326
Pledged bank deposits	21	43,477	10,961
Cash and cash equivalents		80,608	114,364
Total current assets		415,113	382,534
CURRENT LIABILITIES			
Accounts payable	22	60,613	39,317
Bills payable	23	17,925	36,538
Other payables and accrued charges		42,857	42,508
Interest-bearing bank and other loans	24	176,191	165,419
Tax payable		730	286
Total current liabilities		298,316	284,068
NET CURRENT ASSETS		116,797	98,466
TOTAL ASSETS LESS CURRENT LIABILITIES		495,820	482,770
NON-CURRENT LIABILITIES			
Deferred tax liabilities	25	1,890	2,269
NET ASSETS		493,930	480,501
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital	26	51,154	51,095
Reserves	28(a)	433,875	419,958
		485,029	471,053
Non-controlling interests		8,901	9,448
Total equity		493,930	480,501

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Attributable to equity holders of the Company									
	Issued share capital	Share premium account*	Share option reserve*	Exchange fluctuation reserve*	Properties revaluation reserve*	Capital and other reserves*	Accumulated losses*	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009	49,331	8,613	—	18,781	2,080	434,025	(62,840)	449,990	11,217	461,207
Profit for the year	—	—	—	—	—	—	12,784	12,784	1,732	14,516
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	—	—	—	4	—	—	—	4	—	4
Total comprehensive income for the year	—	—	—	4	—	—	12,784	12,788	1,732	14,520
Issue of shares upon exercise of warrants *(note 26)*	1,764	2,644	—	—	—	—	—	4,408	—	4,408
Share issue expenses *(note 26)*	—	(173)	—	—	—	—	—	(173)	—	(173)
Equity-settled share option arrangements *(note 27)*	—	—	4,040	—	—	—	—	4,040	—	4,040
Repayment of loans due to non-controlling interests	—	—	—	—	—	—	—	—	(2,958)	(2,958)
Write-off of loans due to non-controlling interests	—	—	—	—	—	—	—	—	(543)	(543)
At 31 December 2009 and 1 January 2010	51,095	11,084	4,040	18,785	2,080	434,025	(50,056)	471,053	9,448	480,501
Profit for the year	—	—	—	—	—	—	7,179	7,179	(645)	6,534
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	—	—	—	4,413	—	—	—	4,413	98	4,511
Total comprehensive income/(expense) for the year	—	—	—	4,413	—	—	7,179	11,592	(547)	11,045
Issue of shares upon exercise of warrants *(note 26)*	59	59	—	—	—	—	—	118	—	118
Equity-settled share option arrangements *(note 27)*	—	—	2,266	—	—	—	—	2,266	—	2,266
At 31 December 2010	51,154	11,143	6,306	23,198	2,080	434,025	(42,877)	485,029	8,901	493,930

* These reserve accounts comprise the consolidated reserves of HK$433,875,000 (2009: HK$419,958,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows
Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		10,034	17,951
Adjustments for:			
Interest income	5	(629)	(475)
Interest expenses	7	8,535	9,718
Depreciation	6	17,694	17,455
Amortisation of prepaid land lease payments	6	687	682
Impairment of accounts receivable	6	31	296
Reversal of impairment of accounts receivable	6	—	(439)
Gain on disposal of items of property, plant and equipment, net	5	(655)	(3)
Write-off of loans due to non-controlling interests		—	(543)
Share of losses of associates		—	23
Equity-settled share option expense	27	2,266	4,040
		37,963	48,705
Decrease/(increase) in stocks		(25,087)	27,090
Decrease/(increase) in accounts receivable		(2,706)	14,100
Increase in prepayments, deposits and other receivables		(1,528)	(116)
Decrease in amounts due to associates		(1,381)	(249)
Increase/(decrease) in accounts payable		20,832	(15,637)
Increase/(decrease) in bills payable		(19,536)	7,902
Decrease in other payables and accrued charges		(630)	(1,053)
Cash generated from operations		7,927	80,742
Interest received		629	475
Hong Kong profits tax paid		(3,367)	(3,240)
Overseas tax refunded/(paid)		(209)	1,302
Net cash flows from operating activities		4,980	79,279

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(6,479)	(1,471)
Proceeds from disposal of items of property, plant and equipment		753	13
Increase in trademarks		(112)	(194)
Decrease/(increase) in time deposits with original maturity of more than three months when acquired		31,235	(43,000)
Net cash flows from/(used in) investing activities		25,397	(44,652)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(8,535)	(9,718)
Net drawing of bank and other loans		7,128	3,336
Increase in pledged bank deposits		(32,516)	(495)
Issue of shares, including share premium, net		118	4,235
Repayment of loans due to non-controlling interests		—	(2,958)
Net cash flows used in financing activities		(33,805)	(5,600)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(3,428)	29,027
Cash and cash equivalents at 1 January		71,364	42,337
Effect of foreign exchange rates changes, net		907	—
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		68,843	71,364
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position		80,608	114,364
Less: Time deposits with original maturity of more than three months when acquired		(11,765)	(43,000)
Cash and cash equivalents as stated in the consolidated statement of cash flows		68,843	71,364

Statement of Financial Position
31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	450,929	448,447
Deferred tax assets	25	2	5
Total non-current assets		450,931	448,452
CURRENT ASSETS			
Prepayments		306	298
Cash and cash equivalents		74	99
Total current assets		380	397
CURRENT LIABILITIES			
Other payables and accrued charges		211	166
Total current liabilities		211	166
NET CURRENT ASSETS		169	231
NET ASSETS		451,100	448,683
EQUITY			
Issued share capital	26	51,154	51,095
Reserves	28(b)	399,946	397,588
Total equity		451,100	448,683

Notes to Financial Statements

31 December 2010

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 1 August 2007. The registered office of the Company is situated at Clifton House, 75 Fort Street, P.O. Box 1350 GT, Grand Cayman, KY1-1108, Cayman Islands. The principal place of business of the Company is located at Units E & F, 2/F., Hop Hing Building, 9 Ping Tong Street East, Tong Yan San Tsuen, Yuen Long, New Territories, Hong Kong.

The principal activity of the Company is investment holding. The subsidiaries of the Company are primarily engaged in the extraction, refining, blending, bottling, packaging and distribution of edible oils and the provision of ancillary activities.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain land and buildings which were carried at 1993 valuation. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") and the Group's share of the financial statements of the Group's jointly-controlled entities for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*
HK(IFRIC) — Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendments to HK Interpretation 4 *Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

The adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements. The impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009* is further explained below.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

Upon the adoption of the amendments, the Group has reassessed its leases in Mainland China and the classification of those leases remained as operating leases.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[4]
HKFRS 9	*Financial Instruments*[6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[5]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[1]
HK(IFRIC) — Int 14 Amendments	Amendments to HK(IFRIC) — Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC) — Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC) — Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in its jointly-controlled entities are accounted for by the proportionate consolidation method, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results of associates is included in the consolidated income statement. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergy of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, an only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than stocks, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

The transitional provision set out in paragraph 80A of HKAS 16 *Property, Plant and Equipment* issued by the HKICPA has been adopted for certain properties which are stated at valuation. As a result, those assets stated at revalued amounts based on revaluations which were reflected in the financial statements for the year ended 31 December 1993 have not been revalued by class at the end of the reporting period.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the remaining terms of the leases
Buildings	2% to 2.5% or over the terms of the leases, if shorter
Barges, vehicles, leasehold improvements, machinery and equipment	5% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset. On disposal of a revalued asset, the relevant portion of the other properties revaluation reserve realised in respect of previous valuations is transferred to accumulated losses as a movement in reserves.

Trademarks

Trademarks with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level, and are not amortised. The useful life of a trademark with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include accounts receivable, other receivables, pledged bank deposits and cash and cash equivalents.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the income statement. The loss arising from impairment is recognised in the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include accounts payable, bills payable, other payables and interest-bearing bank and other loans.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) from the provision of management, marketing, bottling, packaging and testing services, in the period in which the services are rendered;

(iii) rental income, on a time proportion basis over the lease terms;

(iv) royalties, in the period in which the related products are sold; and

(v) interest income, on an accrual basis using the effective interest rate method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial option pricing model, further details of which are given in note 27 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the end of the reporting period is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the end of the reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Retirement benefits schemes

The Group operates defined contribution retirement benefits schemes, namely, the Mandatory Provident Fund Scheme (the "MPF Scheme") and a scheme registered under the Occupational Retirement Schemes Ordinance which has been exempted under the MPF Schemes Ordinance (the "Exempted

Scheme") for those employees who are eligible to participate. Contributions are made based on a percentage of the employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the respective schemes. The assets of the respective schemes are held separately from those of the Group in independently administered funds. In accordance with the MPF Schemes Ordinance, when an employee leaves the Exempted Scheme prior to his/her interest in the employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. For the MPF Scheme, the employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and a jointly-controlled entity are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries and a jointly-controlled entity are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2010 was HK$989,000 (2009: HK$2,033,000). Further details are contained in note 25 to the financial statements.

4. OPERATING SEGMENT INFORMATION

The Group's primary operating segment is edible oils and food related business. Since it is the only operating segment of the Group, no further analysis thereof is presented. In determining the Group's geographical information, the revenue information is based on the location of the customers, and the total non-current assets information is based on the location of the assets and excludes deferred tax assets.

Geographical Information

	Hong Kong		Mainland China		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	436,909	460,834	332,238	400,223	769,147	861,057
Non-current assets	155,201	155,542	222,833	228,110	378,034	383,652
Capital expenditure*	6,388	1,428	203	237	6,591	1,665

* Capital expenditure consists of additions to property, plant and equipment and trademarks.

5. TURNOVER AND OTHER INCOME AND GAINS, NET

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, the value of services rendered, gross rental income received and royalties during the year.

An analysis of revenue, other income and gains is as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Turnover		
Sales of goods and services	762,695	854,641
Royalties	5,970	6,215
Rental and other income	482	201
	769,147	861,057
Other income and gains, net		
Bank interest income	629	475
Foreign exchange differences, net	423	(172)
Gain on disposal of items of property, plant and equipment, net	655	3
Recovery of prepayments and deposits written off in prior years	—	5,974
	1,707	6,280

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

		2010	**2009**
	Notes	*HK$'000*	*HK$'000*
Net rental income		(473)	(180)
Foreign exchange differences, net	5	(423)	172
Direct cost of stocks sold and services provided		558,277	639,298
Gain on disposal of items of property, plant and equipment, net	5	(655)	(3)
Employee benefit expenses (including directors' emoluments in note 8):			
Wages and salaries		47,532	46,991
Equity-settled share option expense	27	2,266	4,040
Pension scheme contributions		1,773	1,705
		51,571	52,736
Depreciation*	13	17,694	17,455
Amortisation of prepaid land lease payments*	14	687	682
Minimum lease payments under operating leases in respect of land and buildings		7,881	7,907
Auditors' remuneration		1,257	1,223
Impairment of accounts receivable**	20	31	296
Reversal of impairment of accounts receivable**	20	—	(439)
Recovery of prepayments and deposits written off in prior years	5	—	(5,974)

Notes:

* Depreciation and amortisation of prepaid land lease payments are included in "Other production and service costs" in the consolidated income statement.

** Impairment/(reversal of impairment) of accounts receivable are included in "General and administrative expenses" in the consolidated income statement.

*** At 31 December 2010, the Group had no forfeited contributions available to reduce its future contributions to the Exempted Scheme (2009: Nil).

7. FINANCE COSTS

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Interest on bank and other loans wholly repayable within five years	8,535	9,718

8. DIRECTORS' EMOLUMENTS

Directors' emoluments for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	2010					
	Fees	Salaries, allowances and benefits in kind	Discretionary/ performance related bonuses	Equity-settled share option benefits	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
(a) Independent non-executive directors						
Sze Tsai To, Robert	275	—	—	167	—	442
Wong Yu Hong, Philip	220	—	—	167	—	387
Cheung Wing Yui, Edward	220	—	—	167	—	387
Seto Gin Chung, John	220	—	—	167	—	387
Shek Lai Him, Abraham	220	—	—	167	—	387
	1,155	—	—	835	—	1,990
(b) Executive directors and non-executive directors						
Executive directors:						
Wong Kwok Ying	—	1,705	212	318	136	2,371
Lam Fung Ming, Tammy	—	1,105	106	159	88	1,458
	—	2,810	318	477	224	3,829
Non-executive directors:						
Hung Hak Hip, Peter	990	—	—	333	—	1,323
Hung Chiu Yee	30	—	—	167	—	197
Lee Pak Wing	30	—	—	167	—	197
	1,050	—	—	667	—	1,717

	2009					
	Fees	Salaries, allowances and benefits in kind	Discretionary/ performance related bonuses	Equity-settled share option benefits	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
(a) Independent non-executive directors						
Sze Tsai To, Robert	275	—	—	358	—	633
Wong Yu Hong, Philip	220	—	—	358	—	578
Cheung Wing Yui, Edward	220	—	—	358	—	578
Seto Gin Chung, John	220	—	—	358	—	578
Shek Lai Him, Abraham	220	—	—	358	—	578
	1,155	—	—	1,790	—	2,945
(b) Executive directors and non-executive directors						
Executive directors:						
Wong Kwok Ying	—	1,644	401	339	131	2,515
Lam Fung Ming, Tammy	—	1,068	200	169	85	1,522
	—	2,712	601	508	216	4,037
Non-executive directors:						
Hung Hak Hip, Peter	990	—	—	716	—	1,706
Hung Chiu Yee	30	—	—	358	—	388
Lee Pak Wing	30	—	—	358	—	388
	1,050	—	—	1,432	—	2,482

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

As at the end of the reporting period, certain directors held share options of the Company, further details of which are set out in note 27 to the financial statements. The fair value of such options which is being recognised in the income statement over the vesting period, was determined as at the date of grant and the amounts included in the financial statements are included in the above directors' remuneration disclosures.

9. FIVE HIGHEST PAID EMPLOYEES

The aggregate emoluments of the five highest paid employees, including three (2009: three) directors whose emoluments are set out in note 8 above, for the year are as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Salaries, allowances and other emoluments	5,504	5,374
Discretionary/performance related bonuses	613	924
Equity-settled share option expense	868	1,286
Pension scheme contributions	231	223
	7,216	7,807

The above emoluments are analysed as follows:

	Number of employees 2010	2009
Nil to HK$1,000,000	1	—
HK$1,000,001 to HK$1,500,000	3	2
HK$1,500,001 to HK$2,000,000	—	2
HK$2,000,001 to HK$2,500,000	1	—
HK$2,500,001 to HK$3,000,000	—	1
	5	5

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2010 *HK$'000*	2009 *HK$'000*
Group:		
Current — Hong Kong		
Charge for the year	2,798	2,382
Under/(over)provision in prior years	(7)	60
	2,791	2,442
Current — Elsewhere	44	392
Deferred *(note 25)*	665	601
Total income tax expense for the year	3,500	3,435

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries and jointly-controlled entities are domiciled to the tax expense at the effective tax rates is as follows:

	Group 2010 *HK$'000*	2009 *HK$'000*
Profit before tax	10,034	17,951
Tax at the applicable tax rate	1,656	2,962
Effect of different tax rates in other jurisdictions	(1,054)	(321)
Income not subject to tax	(226)	(1,300)
Expenses not deductible for tax	1,025	2,340
Tax losses not recognised	2,666	1,049
Under/(over)provision in respect of prior years, net	(7)	60
Utilisation of previously unrecognised tax losses	(93)	(739)
Others	(467)	(616)
Tax expense at the Group's effective rate	3,500	3,435

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to the equity holders of the Company for the year ended 31 December 2010 includes a profit of HK$33,000 (2009: loss of HK$5,384,000) which has been dealt with in the financial statements of the Company (note 28(b)).

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

(a) Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit for the year attributable to equity holders of the Company of HK$7,179,000 (2009: HK$12,784,000), and the weighted average number of 511,390,491 (2009: 505,265,336) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the consolidated profit for the year attributable to equity holders of the Company of HK$7,179,000 (2009: HK$12,784,000) and the weighted average number of 566,827,084 (2009: 532,900,371) ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares of 55,436,593 (2009: 27,635,035) for the year ended 31 December 2010 calculated as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Consolidated profit attributable to equity holders of the Company	7,179	12,784

	Number of shares	
	2010	**2009**
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	511,390,491	505,265,336
Effect of dilution — weighted average number of ordinary shares:		
Warrants	51,051,939	27,417,953
Share options	4,384,654	217,082
	566,827,084	532,900,371

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings *HK$'000*	Barges, vehicles, leasehold improvements, machinery and equipment *HK$'000*	Total *HK$'000*
31 December 2010			
Cost or valuation:			
At 1 January 2010	254,821	361,629	616,450
Additions	—	6,479	6,479
Disposals	—	(6,639)	(6,639)
Exchange realignment	5,098	6,337	11,435
At 31 December 2010	259,919	367,806	627,725
Accumulated depreciation and impairment:			
At 1 January 2010	113,134	270,610	383,744
Provided during the year	4,018	13,676	17,694
Disposals	—	(6,541)	(6,541)
Exchange realignment	1,563	4,522	6,085
At 31 December 2010	118,715	282,267	400,982
Net book value:			
At 31 December 2010	141,204	85,539	226,743

	Leasehold land and buildings	Barges, vehicles, leasehold improvements, machinery and equipment	Total
	HK$'000	*HK$'000*	*HK$'000*
31 December 2009			
Cost or valuation:			
At 1 January 2009	254,821	360,266	615,087
Additions	—	1,471	1,471
Disposals	—	(108)	(108)
At 31 December 2009	254,821	361,629	616,450
Accumulated depreciation and impairment:			
At 1 January 2009	107,321	259,066	366,387
Provided during the year	5,813	11,642	17,455
Disposals	—	(98)	(98)
At 31 December 2009	113,134	270,610	383,744
Net book value:			
At 31 December 2009	141,687	91,019	232,706

The leasehold land and buildings included above are held on the following lease terms:

	Hong Kong, professional valuation at 31 December 1993 less accumulated depreciation and impairment losses	Hong Kong, at cost less accumulated depreciation	Elsewhere, at cost less accumulated depreciation	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2010				
Long-term leases	—	—	3,938	3,938
Medium-term leases	9,022	3,021	125,223	137,266
	9,022	3,021	129,161	141,204
31 December 2009				
Long-term leases	—	—	4,036	4,036
Medium-term leases	9,265	3,150	125,236	137,651
	9,265	3,150	129,272	141,687

Had the Group's land and buildings been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK$139,605,000 (2009: HK$139,965,000).

At 31 December 2010, certain leasehold land and buildings and certain plant and machinery of the Group with a net carrying value of approximately HK$102,228,000 (2009: HK$109,963,000) were pledged to secure general banking facilities granted to the Group (note 24(a)).

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Carrying amount at 1 January	27,466	28,148
Recognised during the year	(687)	(682)
Exchange realignment	944	—
Carrying amount at 31 December	27,723	27,466
Current portion included in prepayments, deposits and other receivables	(706)	(682)
Non-current portion	27,017	26,784

Prepaid land lease payments represent payments for land use rights held under medium-term leases in Mainland China. At 31 December 2010, certain of these land use rights of HK$27,541,000 (2009: HK$27,280,000) were pledged to secure general banking facilities granted to the Group (note 24(a)).

15. TRADEMARKS

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Cost:		
At 1 January	124,162	123,968
Additions	112	194
At 31 December	124,274	124,162

The directors are in the opinion that the Group's trademarks have indefinite useful life due to the following reasons:

(i) The trademarks, which were acquired by the Group in 1988, have been in use for a very long period of time, some of them since the 1930s, and will continue to be used for the long term; and

(ii) The Group has incurred and intends to continue to incur significant advertising and promotion expenses, which are charged to the income statement when incurred, to maintain and increase the market value of its trademarks and brands.

Jones Lang LaSalle Sallmanns Limited, a firm of independent professionally qualified valuers, has confirmed, in their valuation of the Group's trademarks, that the fair value of the trademarks exceeded the carrying value as at 31 December 2010. Based on that, the directors considered that no impairment provision is necessary.

16. INVESTMENTS IN SUBSIDIARIES

	Company 2010 HK$'000	Company 2009 HK$'000
Unlisted shares, at cost	431,813	431,813
Amounts due from subsidiaries	19,116	16,634
	450,929	448,447

The amounts due from subsidiaries are unsecured, interest-free and are not expected to be repaid in the next 12 months.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registered and operations	Nominal value of issued/ registration and fully paid share capital	Percentage of equity attributable to the Company	Principal activities
Hop Hing Holdings Limited	Bermuda/ Hong Kong	HK$100	100	Investment holding
Hop Hing Development Limited	Hong Kong	HK$10,000	100	Investment holding
Hop Hing Food Products Limited	Hong Kong	HK$2	100	Procurement of edible oils and investment holding
Hop Hing Oil Factory Limited	Hong Kong	HK$24,000,010	100	Bottling, packaging and distribution of edible oils
Hop Hing Oil (Holdings) Limited	Hong Kong	HK$88,241,505	100	Investment holding
Hop Hing Oil Investment Limited	Hong Kong	HK$1,000,010	100	Leasing of property, plant and equipment
Hop Hing Oil Procurement Limited	Hong Kong	HK$2	100	Procurement of edible oils
Hop Hing Oil Refinery Limited	Hong Kong	HK$10,000,000	100	Edible oil refinery
Hop Hing Oil Terminals (Pan Yu) Limited	British Virgin Islands	US$4,034,699	100	Investment holding

Name	Place of incorporation/ registered and operations	Nominal value of issued/ registration and fully paid share capital	Percentage of equity attributable to the Company	Principal activities
Hop Hing Oil Terminals (Guangzhou) Limited	British Virgin Islands	US$1,385,941	100	Investment holding
Hop Hing Oil Trading Limited (formerly named as Church Bay (1985) Limited)	Hong Kong	HK$22	100	Distribution of edible oils
Hop Hing Oil Trading (2000) Limited	Hong Kong	HK$2	100	Distribution of edible oils
Knight Investment Limited	Hong Kong	HK$22	100	Property holding
Lapidus (1985) Limited	Hong Kong	HK$12	100	Barge ownership
Monitor Ltd.	British Virgin Islands	US$1	100	Trademark holding
Panyu Hop Hing Oils & Fats Co. Ltd.**	People's Republic of China/ Mainland China	HK$75,000,000	100	Bottling, packaging and distribution of edible oils
Panyu Kwong Hing Packaging Company, Limited**	People's Republic of China/ Mainland China	HK$50,000,000	100	Blending and distribution of edible oils
Pinghu Hop Hing Vegetable Oils Company, Limited*	People's Republic of China/ Mainland China	US$1,400,000	51	Edible oil refinery
Sino Food Products Company (Holdings) Limited	Hong Kong	HK$10	100	Distribution of edible oils
Top Charter Holdings Limited	British Virgin Islands	US$1	100	Production of edible oils

* Registered as an equity joint venture under the PRC law.

** Registered as wholly-foreign-owned enterprises under the PRC law.

Except for Hop Hing Holdings Limited, all the above principal subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17. INVESTMENTS IN ASSOCIATES

	Group 2010	2009
	HK$'000	*HK$'000*
Share of net assets	—	24,441
Due to associates	—	(25,822)
	—	(1,381)

The amounts due to associates as at 31 December 2009 were unsecured, interest-free and have no fixed terms of repayment.

Particulars of the associates at 31 December 2009 were as follows:

Name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group	Principal activities
Omeron Profits Limited*	Ordinary shares of US$1 each	British Virgin Islands	50	Dormant
Tepac Profits Limited*	Ordinary shares of US$1 each	British Virgin Islands	50	Dormant

* The associates were liquidated during the year ended 31 December 2010.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts for the year ended 31 December 2009:

	HK$'000
Assets	48,882
Liabilities	—
Revenues	—
Loss	(45)

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

Particulars of the jointly-controlled entities are as follows:

Name	Particulars of issued shares held	Place of incorporation/ operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Evergreen Oils & Fats Limited	Ordinary shares of HK$1 each	Cayman Islands/ Hong Kong	50	50	50	Trading and distribution of edible oils, fats and shortenings
Hop Hing Oils and Fats Limited	Ordinary shares of HK$1 each	Hong Kong	50	50	50	Trading and distribution of edible oils, fats and shortenings
Lam Soon Oils and Fats Limited	Ordinary shares of HK$1 each	Hong Kong	50	50	50	Trading and distribution of edible oils, fats and shortenings
Landex Investments Limited	Ordinary shares of HK$1 each	Hong Kong	50	50	50	Property holding
Evergreen Oils & Fats (Macau) Limited	Ordinary shares of MOP30,000 in total	Macau	50	50	50	Trading and distribution of edible oils, fats and shortenings

These investments in jointly-controlled entities are indirectly held by the Company.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

Share of the jointly-controlled entities' assets and liabilities:

	2010	**2009**
	HK$'000	*HK$'000*
Current assets	156,093	139,254
Non-current assets	7,678	7,427
Current liabilities	(111,081)	(92,563)
Non-current liabilities	(188)	(466)
Net assets	52,502	53,652

Share of the jointly-controlled entities' results:

	2010	**2009**
	HK$'000	*HK$'000*
Turnover	340,935	358,406
Costs and expenses	(342,284)	(354,723)
Profit/(loss) before tax	(1,349)	3,683
Income tax	199	(551)
Profit/(loss) after tax	(1,150)	3,132

19. STOCKS

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Finished goods	26,536	29,409
Work in progress	222	61
Raw materials	131,270	101,826
	158,028	131,296

20. ACCOUNTS RECEIVABLE

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Accounts receivable	124,686	120,671
Impairment	(14,758)	(14,339)
	109,928	106,332

The Group's products are sold either on a cash on delivery basis, or on an open account basis with credit terms ranging from 7 to 70 days. Each customer has a maximum credit limit and overdue balances are regularly reviewed by the senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a number of diversified customers, there is no significant concentration of credit risk. Accounts receivable are non-interest-bearing.

An aged analysis of the accounts receivable as at the end of the reporting period, based on payment due dates and net of provisions, is as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Current (neither past due nor impaired)	76,042	82,097
Within 60 days past due	26,108	18,951
Over 60 days past due	7,778	5,284
	109,928	106,332

Certain of the above accounts receivable as at 31 December 2010 were factored to a bank in exchange for cash and the related bank loans have been included as "Interest-bearing bank and other loans" on the face of the consolidated statement of financial position (note 24).

The movements in impairment of accounts receivable are as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
At 1 January	14,339	14,530
Exchange realignment	439	—
Impairment losses recognised *(note 6)*	31	296
Impairment losses reversed *(note 6)*	—	(439)
Uncollectible amounts written off	(51)	(48)
At 31 December	14,758	14,339

Included in the above impairment of accounts receivable is a provision for individually impaired accounts receivable.

The individually impaired accounts receivable relate to receivables which are expected not to be recoverable or only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

Receivables that were past due but not impaired relate to a number of independent customers that have good track records with the Group. Based on past experience, the directors of the Company are of the opinion that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Included in the Group's accounts receivable are amounts totalling HK$10,809,000 (2009: HK$8,620,000) due from the Group's jointly-controlled entities which are repayable on credit terms comparable to those offered to other unrelated customers of the Group.

21. PLEDGED BANK DEPOSITS

The deposits were pledged to banks to secure certain bills payable (note 23) and bank loans (note 24(a)) of the Group.

22. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the end of the reporting period, based on payment due dates, is as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Current and less than 60 days	58,441	38,338
Over 60 days	2,172	979
	60,613	39,317

The accounts payable are non-interest-bearing and are normally settled within credit terms of 7 to 60 days.

Included in the Group's accounts payable are amounts of HK$9,496,000 (2009: HK$7,432,000) due to certain companies associated with another venturer of the Group's jointly-controlled entities which are payable on credit terms comparable to those offered by other unrelated suppliers of the Group.

23. BILLS PAYABLE

Certain bills payable are secured by bank deposits of HK$5,377,000 (2009: HK$10,961,000) of the Group (note 21).

24. INTEREST-BEARING BANK AND OTHER LOANS

Group

	2010			2009		
	Effective interest rate per annum %	**Maturity**	*HK$'000*	**Effective interest rate per annum** %	**Maturity**	*HK$'000*
Current (repayable within one year or on demand)						
Bank loans — unsecured	2.3	2011	64,624	1.8	2010	55,340
Bank loans on factored accounts receivable — unsecured *(note 20)*	1.7	2011	6,183	1.5	2010	6,728
Bank loans — secured	7.1	2011	105,384	5.3	2010	91,987
Loan from a related company — unsecured	—	—	—	5.3	2010	11,364
			176,191			165,419

Notes:

(a) Certain of the Group's bank loans are secured by:

(i) legal charges over certain of the Group's land use rights, classified as prepaid land lease payments, and certain leasehold land and buildings and plant and machinery, which had aggregate carrying values at the end of the reporting period of approximately HK$27,541,000 (2009: HK$27,280,000) and HK$102,228,000 (2009: HK$109,963,000), respectively;

(ii) a corporate guarantee of HK$10,588,000 (2009: HK$5,682,000) given to a bank by an independent third party; and

(iii) the pledge of certain of the Group's time deposits amounting to HK$38,100,000 (2009: Nil).

Certain of the Group's bank loans as at 31 December 2009 were secured by, in addition to the securities above, a personal guarantee of HK$6,818,000 given to a bank by a senior executive of the Group.

(b) Fixed interest rate bank loans of HK$82,293,000 (2009: HK$97,669,000), floating interest rate bank loans of HK$33,679,000 (2009: Nil) and the loan from a related company of HK$11,364,000 as at 31 December 2009, are denominated in Renminbi. All other bank loans are denominated in Hong Kong dollars and with floating interest rates.

(c) Secured interest-bearing bank loans included certain of the Group's bank loans of approximately HK$70,528,000 (2009: HK$90,851,000) in Mainland China which were borrowed by a PRC subsidiary of the Group and secured by certain property, plant and equipment and prepaid land lease payments of certain PRC subsidiaries and have no recourse to the Group other than those PRC subsidiaries.

25. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year were as follows:

Deferred tax liabilities

Group

	Accelerated tax depreciation	Revaluation of properties	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2009	2,239	412	2,651
Credited to the income statement during the year *(note 10)*	(382)	—	(382)
At 31 December 2009 and 1 January 2010	1,857	412	2,269
Credited to the income statement during the year *(note 10)*	(379)	—	(379)
At 31 December 2010	1,478	412	1,890

Deferred tax assets

Group

	Losses available for offsetting against future taxable profits
	HK$'000
At 1 January 2009	3,016
Charged to the income statement during the year *(note 10)*	(983)
At 31 December 2009 and 1 January 2010	2,033
Charged to the income statement during the year *(note 10)*	(1,044)
At 31 December 2010	989

At 31 December 2010, the Group had tax losses of HK$8,855,000 (2009: HK$28,819,000) arising in Hong Kong that were available indefinitely for offsetting against future taxable profits of the relevant companies. The Group also had tax losses of HK$27,624,000 (2009: HK$31,241,000) arising in Mainland China for offsetting against future taxable profits of the relevant companies in one to five years. Tax losses of HK$6,191,000 (2009: HK$14,681,000) arising in Hong Kong have been recognised as deferred tax assets on the expected future profit streams. Deferred tax assets in respect of tax losses of HK$2,664,000 (2009: HK$14,138,000) and HK$27,624,000 (2009: HK$31,241,000) arising in Hong Kong and Mainland China, respectively, have not been recognised as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. At 31 December 2010, there was no significant unrecognised deferred tax liability (2009: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries, associates or jointly-controlled entities.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The Company's deferred tax assets of approximately HK$2,000 (2009: HK$5,000) have been recognised in respect of tax losses of HK$9,000 (2009: HK$28,000) on the expected future profit streams. Deferred tax assets of HK$3,000 (2009: credit of HK$2,000) were charged to the income statement during the year.

26. SHARE CAPITAL

	2010	2009
	HK$'000	*HK$'000*
Authorised:		
800,000,000 (2009: 800,000,000) ordinary shares of HK$0.10 each	80,000	80,000
Issued and fully paid:		
511,539,906 (2009: 510,949,072) ordinary shares of HK$0.10 each	51,154	51,095

A summary of the movements in the Company's issued ordinary share capital during the year is as follows:

	Notes	Number of shares in issue	Issued share capital	Share premium account	Total
			HK$'000	*HK$'000*	*HK$'000*
Issued:					
At 1 January 2009		493,306,988	49,331	8,613	57,944
Issue of shares upon exercise of warrants	(a), (b)	17,642,084	1,764	2,644	4,408
Share issue expenses		—	—	(173)	(173)
At 31 December 2009 and 1 January 2010		510,949,072	51,095	11,084	62,179
Issue of shares upon exercise of warrants	(c)	590,834	59	59	118
At 31 December 2010		511,539,906	51,154	11,143	62,297

Notes:

(a) During the year ended 31 December 2009, 17,579,748 ordinary shares of HK$0.10 each were issued for cash at a subscription price of HK$0.25 per share, pursuant to the exercise of the Company's then warrants for a total cash consideration, before expenses, of approximately HK$4,395,000.

(b) During the year ended 31 December 2009, 62,336 ordinary shares of HK$0.10 each were issued for cash at a subscription price of HK$0.20 per share, pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of approximately HK$13,000.

(c) During the year ended 31 December 2010, 590,834 ordinary shares of HK$0.10 each were issued for cash at a subscription price of HK$0.20 per share, pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of approximately HK$118,000.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 27 to the financial statements.

Warrants

During the year ended 31 December 2009, 17,579,748 ordinary shares of HK$0.10 each were issued for cash at a subscription price of HK$0.25 per share, pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of approximately HK$4,395,000.

All the Company's warrants which remained outstanding as at 30 April 2009 were expired on that day. For details, please refer to the Company's announcement dated 27 March 2009.

During the year ended 31 December 2009, a bonus issue of warrants was made in the proportion of one warrant for every five shares held by the shareholders on the register of shareholders of the Company on 3 June 2009, resulting in 102,177,347 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK$0.10 at a subscription price of HK$0.20 per share, payable in cash and subject to adjustment, from the date of issue to 31 May 2013.

During the year ended 31 December 2009, 62,336 ordinary shares of HK$0.10 each were issued for cash at a subscription price of HK$0.20 per share, pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of approximately HK$13,000.

During the year ended 31 December 2010, 590,834 ordinary shares of HK$0.10 each were issued for cash at a subscription price of HK$0.20 per share, pursuant to the exercise of the Company's warrants for a total consideration, before expenses, of approximately HK$118,000. At the end of the reporting period, the Company had 101,524,177 warrants outstanding. The exercise in full of such warrants would, under the capital structure of the Company, result in the issue of 101,524,177 additional ordinary shares of HK$0.10 each.

27. SHARE OPTIONS

On 12 March 2008, the Company adopted a share option scheme (the "Share Option Scheme") which became effective on 25 April 2008.

The main purpose of the Share Option Scheme is to attract, retain and reward the participants and to provide the participants with a performance incentive for continued and improved services with the Group. The participants of the Share Option Scheme include any full-time employee and any director of the Group, and any person approved by the board of directors or shareholders of the Company. The Share Option Scheme became effective on 25 April 2008 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum aggregate number of shares of HK$0.10 each in the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed in aggregate 10% of the shares in issue from time to time (the "Overall Scheme Limit"). No options may be granted under any scheme of the Company if such grant will result in the Overall Scheme Limit being exceeded.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other scheme must not in aggregate exceed 10% of the shares in issue as at the effective date of the Share Option Scheme (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit.

Subject to the Overall Scheme Limit, the Company may seek approval from its shareholders in a general meeting for refreshing the Scheme Mandate Limit. However, the total number of shares which may be issued upon exercise of all options to be granted under the refreshed limit must not exceed 10% of the shares in issue as at the date of approval of the shareholders of the Company of the refreshing of the Scheme Mandate Limit.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue.

The period within which the options may be exercised in accordance with the terms of the Share Option Scheme, shall: (i) be determined by the directors; (ii) commence on the expiration of 12 months (or such shorter period as may be determined by the directors) from the date of offer of options; and (iii) in any event not less than 3 years or more than 10 years from the date on which it commences.

The offer of a grant of options must be accepted within 21 days from the date of the offer. The exercise price of an option to subscribe for shares granted pursuant to the Share Option Scheme shall not be less than the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date on which an offer is made to a participant, which must be a business day; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date on which an offer is made.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options under the Share Option Scheme of the Company were outstanding during the year and as at 31 December 2010:

Name or category of participant	At 1 January 2010	Number of share options: Granted during the year	Number of share options: Exercised during the year	At 31 December 2010	Date of grant *(Note 2)*	Exercise period	Price of the Company's shares: Exercise price *(Note 3)* *HK$ per share*	Price of the Company's shares: At date of grant *(Note 4)* *HK$ per share*	Price of the Company's shares: Immediately before the exercise date *HK$ per share*	Price of the Company's shares: At date of exercise *HK$ per share*
Directors										
Hung Hak Hip, Peter	4,928,000	—	—	4,928,000	27 April 2009	27 April 2010 to 26 April 2019	0.35	0.35	N/A	N/A
Wong Yu Hong, Philip	2,464,000	—	—	2,464,000	27 April 2009	27 April 2010 to 26 April 2019	0.35	0.35	N/A	N/A
Sze Tsai To, Robert	2,464,000	—	—	2,464,000	27 April 2009	27 April 2010 to 26 April 2019	0.35	0.35	N/A	N/A
Cheung Wing Yui, Edward	2,464,000	—	—	2,464,000	27 April 2009	27 April 2010 to 26 April 2019	0.35	0.35	N/A	N/A
Seto Gin Chung, John	2,464,000	—	—	2,464,000	27 April 2009	27 April 2010 to 26 April 2019	0.35	0.35	N/A	N/A
Shek Lai Him, Abraham	2,464,000	—	—	2,464,000	27 April 2009	27 April 2010 to 26 April 2019	0.35	0.35	N/A	N/A
Hung Chiu Yee	2,464,000	—	—	2,464,000	27 April 2009	27 April 2010 to 26 April 2019	0.35	0.35	N/A	N/A
Lee Pak Wing	2,464,000	—	—	2,464,000	27 April 2009	27 April 2010 to 26 April 2019	0.35	0.35	N/A	N/A
Wong Kwok Ying	4,928,000	—	—	4,928,000	27 April 2009	Commencement subject to Note 1 below and up to 26 April 2019	0.35	0.35	N/A	N/A
Lam Fung Ming, Tammy	2,464,000	—	—	2,464,000	27 April 2009	Commencement subject to Note 1 below and up to 26 April 2019	0.35	0.35	N/A	N/A
	29,568,000	—	—	29,568,000						
Employees	4,500,000	—	—	4,500,000	27 April 2009	Commencement subject to Note 1 below and up to 26 April 2019	0.35	0.35	N/A	N/A
	34,068,000	—	—	34,068,000						

Notes:

(1) Subject to certain performance targets being met by the participants, the participants may, at any time on or after 27 April 2010 as may be prescribed by the board of directors at its discretion, be notified (the "Date of Notification") of the vesting of the share options and the number of shares

comprised in vested share options. Thereafter, the participants shall have the right to exercise the vested share options within the exercise period from the Date of Notification to 26 April 2019 in accordance with the terms of their grant.

(2) Subject to note (1) above, the share options are subject to vesting periods which run from the date of grant to the commencement of the exercise period.

(3) The exercise price of the share options is subject to adjustments.

(4) The price of the Company's shares disclosed is the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the day specified.

The fair value of the share options granted during the year ended 31 December 2009 was HK$6,718,000 (HK$0.197 each) which is recognised in the income statement over the relevant vesting periods. Accordingly, share option expense of HK$2,266,000 (2009: HK$4,040,000) was recognised during the year ended 31 December 2010.

The fair value of share options granted during the year ended 31 December 2009 was estimated by the management as at the date of grant, using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2009
Dividend yield *(%)*	—
Employee exit rate *(%)*	—
Expected volatility *(%)*	71.96
Historical volatility *(%)*	71.96
Risk-free interest rate *(%)*	2.16
Suboptimal exercise factor	2.81

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

As at 31 December 2010, the Company had 34,068,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 34,068,000 additional ordinary shares of the Company and additional share capital of HK$3,406,800 and share premium of HK$8,517,000 (before issue expenses).

No options were granted or exercised during the year.

28. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

(b) Company

	Share premium account HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	8,613	—	388,224	(376)	396,461
Total comprehensive expense for the year	—	—	—	(5,384)	(5,384)
Issue of shares upon exercise of warrants *(note 26)*	2,644	—	—	—	2,644
Share issue expenses	(173)	—	—	—	(173)
Equity-settled share option arrangements *(note 27)*	—	4,040	—	—	4,040
At 31 December 2009	11,084	4,040	388,224	(5,760)	397,588
Total comprehensive income for the year	—	—	—	33	33
Issue of shares upon exercise of warrants *(note 26)*	59	—	—	—	59
Equity-settled share option arrangements *(note 27)*	—	2,266	—	—	2,266
At 31 December 2010	11,143	6,306	388,224	(5,727)	399,946

The Company's contributed surplus represents the difference between the nominal value of shares of HK$0.10 each of the Company allotted under a reorganisation ("the Reorganisation") whereby Hop Hing Holdings Limited ("HHHL"), the then ultimate holding company of the Group, became a wholly-owned subsidiary of the Company, and the consolidated shareholders' equity of HHHL and its subsidiaries as at 25 April 2008, the date on which the Reorganisation became effective. Details of the Reorganisation were set out in HHHL's scheme document dated 14 March 2008.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

Pursuant to the Companies Law of the Cayman Islands, the net amount of reserves distributable to shareholders of the Company as at 31 December 2010 amounted to HK$393,640,000 (2009: HK$393,548,000).

29. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Within one year	7,370	7,082
In the second to fifth years, inclusive	3,840	9,024
	11,210	16,106

The Company had no significant operating lease arrangements at the end of the reporting period (2009: Nil).

30. COMMITMENTS

At the end of the reporting period, the Group had the following commitments for capital expenditure:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Property, plant and equipment:		
Contracted, but not provided for	174	1,254
Authorised, but not contracted for	19	768

The Company had no significant capital commitments at the end of the reporting period (2009: Nil).

31. CONTINGENT LIABILITIES

Group

(a) At the end of the reporting period, the contingent liabilities of the Group in respect of guarantees given to a bank to secure a banking facility granted to a third party amounted to HK$11,765,000 (2009: HK$11,364,000) (the "Guarantee").

(b) During the year, the Hong Kong Inland Revenue Department (the "IRD") issued protective assessment for the year of assessment 2003/2004 to a jointly-controlled entity of the Group, in respect of which tax reserve certificate amounted to HK$2,800,000 was purchased. Subsequent to the year end, IRD issued protective assessments for the year of assessment 2004/2005 to the jointly-controlled entity and a subsidiary of the Group, in respect of which tax reserve certificates amounted to HK$4,000,000 and HK$1,500,000 were purchased respectively. The Group has lodged objections with the IRD against these assessments.

In the opinion of the directors, the Group has grounds to contest the protective tax assessments, thus provision for Hong Kong profits tax in respect of these assessments at this information gathering stage is not considered necessary.

Company

At the end of the reporting period, the contingent liabilities of the Company in respect of guarantees given to a bank to secure banking facilities utilised by subsidiaries amounted to HK$13,235,000 (2009: HK$3,651,000).

32. RELATED PARTY TRANSACTIONS

(a) In addition to those transactions and balances disclosed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

		Group	
		2010	**2009**
	Notes	*HK$'000*	*HK$'000*
Transactions with jointly-controlled entities*:			
Sales of goods	(i)	36,455	48,397
Production and oil refinement income	(ii)	54,078	42,718
Royalty income	(iii)	11,940	12,431
Property rental income	(iv)	361	361
Management fee income	(v)	4,640	4,640
Transactions with companies associated with the controlling shareholder of the Company and/or a non-executive director of the Company:			
Sales of goods	(i)	4,542	5,467
Rental expenses	(vi)	4,147	3,284
Interest expenses	(vii)	625	686

* The Group has proportionately consolidated 50% of its transactions with its jointly-controlled entities in the consolidated income statement.

Notes:

(i) The sales of goods were on normal commercial terms in the ordinary and usual course of business of the Group.

(ii) The production and oil refinement income was based on agreements entered into with a jointly-controlled entity after an arm's length negotiation and was at rates not less favourable than those offered to other unrelated customers of the Group.

(iii) Pursuant to trademark licence agreements entered into between the Group and certain jointly-controlled entities, the royalties received for the use of the trademarks are calculated based on a percentage, as agreed between the parties from time to time, on the gross sales value of licensed products sold by the jointly-controlled entities within Hong Kong and Macau.

(iv) The property rental income related to the subletting of certain properties. The property rental income was charged by reference to open market rental and was subject to review on a regular basis.

(v) The management fee income was based on the cost incurred for providing such services.

(vi) The rental expenses were paid by reference to open market rental and were subject to the terms of the relevant tenancies.

(vii) The interest expenses represented payments of interest on loans from related companies at the prevailing market rates.

The transactions with companies associated with the controlling shareholders of the Company and/or a non-executive director of the Company as set out above constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules. Further details of the continuing connected transactions that are subject to the reporting requirement under the Listing Rules are included in the report of the directors under the heading of "Continuing Connected Transactions".

(b) On 16 April 2010, Grand Synergy Investments Limited, a company incorporated in the British Virgin Islands and associated with a non-executive director of the Company, executed an indemnity deed (the "Indemnity") in favour of the Company for the purpose of indemnifying the Company against any loss or liability which the Company may incur in relation to the Guarantee (note 31), up to a maximum amount of RMB10,000,000 (equivalent to approximately HK$11,765,000). Details of the Indemnity are set out in the Company's announcement dated 16 April 2010.

(c) Outstanding balances with related parties:

(i) Details of the Group's trade balances with jointly-controlled entities as at the end of the reporting period are disclosed in note 20 to the financial statements.

(ii) Details of the Group's loan from a related party as at 31 December 2009 disclosed in note 24 to the financial statements.

(d) Compensation of key management personnel of the Group:

	2010	2009
	HK$'000	*HK$'000*
Short-term employee benefits	3,128	3,313
Post-employment benefits	224	216
Equity-settled share option expense	477	508
Total compensation paid to key management personnel	3,829	4,037

Further details of directors' emoluments are included in note 8 to the financial statements.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other loans, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable, and accounts and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group is also subject to commodity price risk. The board of directors reviews and agrees policies for managing each of these risks, which are summarised below.

Interest rate risk

The Group's current banking facilities maintained with commercial banks are mainly at fixed rates. Hence, the Group currently does not have an interest rate hedging policy. However, the management monitors the Group's interest exposure and will consider hedging significant interest rate exposure should the needs arise.

Foreign currency risk

The Group's monetary assets, liabilities and transactions are principally denominated in Hong Kong dollars, Renminbi or United States dollars. Given that the Hong Kong dollars are pegged to the United States dollars and fluctuations between Renminbi and United States dollars are under the control of the PRC government, the foreign currency risk is considered not material and the Group therefore does not have a foreign currency hedging policy. However, the management monitors the Group's foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arise.

Credit risk

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. With such policies in place, the Group has been able to maintain its bad debts at a reasonable level. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's accounts receivable are widely diversified to a large number of customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable are disclosed in note 20 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., accounts receivable) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other loans to meet its working capital and capital expenditure requirements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was less than one year.

Commodity price risk

The major raw materials used in the production of the Group's products include crude edible oils. The Group is exposed to fluctuations in the prices of these raw materials which are subject to global as well as regional supply and demand and other factors. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group did not enter into any commodity derivative instruments to hedge the potential commodity price changes during the years ended 31 December 2010 and 2009.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 2009.

The Group monitors capital using a gearing ratio, which is expressed as a percentage of interest-bearing bank and other loans over equity attributable to equity holders of the Company. The gearing ratios as at the end of the reporting periods were as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Interest-bearing bank and other loans	176,191	165,419
Equity attributable to equity holders of the Company	485,029	471,053
Gearing ratio	36%	35%

34. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period and for the purpose of coordinating with the land policy of the local government, the board of directors of Pinghu Hop Hing Vegetable Oils Company, Limited ("Pinghu Hop Hing"), a 51% owned subsidiary of the Group, resolved to sell its land to a third party property developer and the shareholders of Pinghu Hop Hing also resolved to liquidate Pinghu Hop Hing in June 2011.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2011.

3. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2011

The following is the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2011 and the accompanying notes extracted from the interim report of the Group for the six months ended 30 June 2011.

Condensed Consolidated Income Statement

		Unaudited For the six months ended 30 June	
		2011	**2010**
	Notes	*HK$'000*	*HK$'000*
TURNOVER	4	385,257	334,976
Direct cost of stocks sold and services provided		(283,546)	(240,638)
Other income and gains, net		1,290	739
Other production and service costs (including depreciation and amortisation of HK$9,183,000 (2010: HK$9,121,000))		(27,188)	(26,300)
Selling and distribution costs		(50,130)	(49,402)
General and administrative expenses		(22,628)	(21,267)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	5	3,055	(1,892)
Finance costs	6	(5,001)	(3,998)
LOSS BEFORE TAX		(1,946)	(5,890)
Income tax expense	7	(1,034)	(1,048)
LOSS FOR THE PERIOD		(2,980)	(6,938)
ATTRIBUTABLE TO:			
Equity holders of the Company		(1,892)	(6,789)
Non-controlling interests		(1,088)	(149)
		(2,980)	(6,938)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	8		
Basic		HK(0.37 cent)	HK(1.33 cents)
Diluted		HK(0.37 cent)	HK(1.33 cents)

Condensed Consolidated Statement of Comprehensive Income

	Unaudited For the six months ended 30 June	
	2011	**2010**
	HK$'000	*HK$'000*
LOSS FOR THE PERIOD	(2,980)	(6,938)
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	3,029	—
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	3,029	—
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD	49	(6,938)
ATTRIBUTABLE TO:		
Equity holders of the Company	1,109	(6,789)
Non-controlling interests	(1,060)	(149)
	49	(6,938)

Condensed Consolidated Statement of Financial Position

	Notes	**Unaudited 30 June 2011** *HK$'000*	**Audited 31 December 2010** *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	9	212,002	226,743
Prepaid land lease payments		26,973	27,017
Trademarks		124,278	124,274
Deferred tax assets		989	989
Total non-current assets		364,242	379,023
CURRENT ASSETS			
Stocks		151,571	158,028
Accounts receivable	10	83,643	109,928
Prepayments, deposits and other receivables		31,352	21,561
Non-current assets held for disposal	11	10,706	—
Tax recoverable		1,400	1,511
Pledged bank deposits		49,576	43,477
Cash and cash equivalents		99,571	80,608
Total current assets		427,819	415,113
CURRENT LIABILITIES			
Accounts payable	12	37,971	60,613
Bills payable		38,253	17,925
Other payables and accrued charges		54,320	42,857
Interest-bearing bank loans	13	166,831	176,191
Tax payable		1,598	730
Total current liabilities		298,973	298,316
NET CURRENT ASSETS		128,846	116,797
TOTAL ASSETS LESS CURRENT LIABILITIES		493,088	495,820
NON-CURRENT LIABILITIES			
Deferred tax liabilities		1,890	1,890
NET ASSETS		491,198	493,930
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital	14	51,155	51,154
Reserves		435,113	433,875
		486,268	485,029
Non-controlling interests		4,930	8,901
Total equity		491,198	493,930

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011 (Unaudited)

	Attributable to equity holders of the Company									
	Issued share capital	Share premium account	Share option reserve	Exchange fluctuation reserve	Properties revaluation reserve	Capital and other reserves	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011	51,154	11,143	6,306	23,198	2,080	434,025	(42,877)	485,029	8,901	493,930
Loss for the period	—	—	—	—	—	—	(1,892)	(1,892)	(1,088)	(2,980)
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	—	—	—	3,001	—	—	—	3,001	28	3,029
Total comprehensive income/ (expense) for the period	—	—	—	3,001	—	—	(1,892)	1,109	(1,060)	49
Issue of shares upon exercise of warrants *(note 14)*	1	1	—	—	—	—	—	2	—	2
Share issue expenses	—	(42)	—	—	—	—	—	(42)	—	(42)
Equity-settled share option arrangements	—	—	170	—	—	—	—	170	—	170
Repayment of loans due to non-controlling interests	—	—	—	—	—	—	—	—	(2,911)	(2,911)
At 30 June 2011	51,155	11,102*	6,476*	26,199*	2,080*	434,025*	(44,769)*	486,268	4,930	491,198

* These reserve accounts comprise the reserves of HK$435,113,000 in the condensed consolidated statement of financial position as at 30 June 2011.

For the six months ended 30 June 2010 (Unaudited)

	Attributable to equity holders of the Company									
	Issued share capital	Share premium account	Share option reserve	Exchange fluctuation reserve	Properties revaluation reserve	Capital and other reserves	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	51,095	11,084	4,040	18,785	2,080	434,025	(50,056)	471,053	9,448	480,501
Loss and total comprehensive expense for the period	—	—	—	—	—	—	(6,789)	(6,789)	(149)	(6,938)
Issue of shares upon exercise of warrants *(note 14)*	38	38	—	—	—	—	—	76	—	76
Equity-settled share option arrangements	—	—	1,134	—	—	—	—	1,134	—	1,134
At 30 June 2010	51,133	11,122	5,174	18,785	2,080	434,025	(56,845)	465,474	9,299	474,773

Condensed Consolidated Statement of Cash Flows

	Unaudited For the six months ended 30 June	
	2011	**2010**
	HK$'000	*HK$'000*
NET CASH FLOWS FROM/(USED IN):		
OPERATING ACTIVITIES	44,975	4,390
INVESTING ACTIVITIES	(30,284)	4,159
FINANCING ACTIVITIES	(26,019)	(9,032)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,328)	(483)
Cash and cash equivalents at beginning of period	68,843	71,364
Effect of foreign exchange rates changes, net	756	—
CASH AND CASH EQUIVALENTS AT END OF PERIOD	58,271	70,881
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	99,571	105,881
Less: Time deposits with original maturity of more than three months when acquired	(41,300)	(35,000)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	58,271	70,881

Notes to Condensed Consolidated Financial Statements

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" and other relevant HKASs and Interpretations, Hong Kong Financial Reporting Standards (collectively, the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Save for the adoption of new and revised HKFRSs during the period as set out in note 2 below, the accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial statements are the same as those used in the preparation of the annual financial statements for the year ended 31 December 2010.

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current period's condensed consolidated interim financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*
HK(IFRIC) — Int 14 Amendments	Amendments to HK(IFRIC) — Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC) — Int 19	*Extinguishing Financial Liabilities with Equity Instruments*

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC) — Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

The adoption of these new and revised HKFRSs has had no significant financial effect on these condensed consolidated interim financial statements and there have been no significant changes to the accounting policies applied in these condensed consolidated interim financial statements.

3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these interim financial statements.

HKFRS 1 Amendments	Amendments to *HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adoptors*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 (Revised)	Amendments to HKAS 1(Revised) *Presentation of Financial Statement*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures* [4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. However, it is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

4. TURNOVER AND SEGMENT INFORMATION

The Group's primary operating segment is edible oils and food related business. Since it is the only operating segment of the Group, no further analysis thereof is presented.

5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Unaudited For the six months ended 30 June	
	2011	**2010**
	HK$'000	*HK$'000*
Direct cost of stocks sold and services provided	283,546	240,638
Depreciation	8,828	8,780
Amortisation of prepaid land lease payments	355	341
Gain on disposal of items of property, plant and equipment, net	(52)	(501)

6. FINANCE COSTS

	Unaudited For the six months ended 30 June 2011 HK$'000	2010 HK$'000
Interest on bank loans wholly repayable within five years	5,001	3,998

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Unaudited For the six months ended 30 June 2011 HK$'000	2010 HK$'000
Tax in the income statement represents:		
Provision for Hong Kong profits tax	1,034	987
	1,034	987
Deferred tax	—	61
	1,034	1,048

8. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

a. Basic loss per share

The calculation of basic loss per share is based on the consolidated loss for the period attributable to equity holders of the Company of HK$1,892,000 (2010: HK$6,789,000), and the weighted average number of 511,548,211 (2010: 511,265,476) ordinary shares in issue during the period.

b. Diluted loss per share

No adjustment in respect of a dilution has been made to the basic loss per share amounts presented for both periods as the impact of the warrants and share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2011, the Group acquired items of property, plant and equipment with a cost of HK$871,000 (2010: HK$4,357,000). Items of property, plant and equipment with a net book value of HK$74,000 (2010: HK$97,000) were disposed of during the six months ended 30 June 2011.

10. ACCOUNTS RECEIVABLE

	Unaudited 30 June 2011 HK$'000	Audited 31 December 2010 HK$'000
Accounts receivable	98,400	124,686
Impairment	(14,757)	(14,758)
	83,643	109,928

The Group's products are sold either on a cash on delivery basis, or on an open account basis with credit terms ranging from 7 to 70 days. Each customer has a maximum credit limit and overdue balances are regularly reviewed by the senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a number of diversified customers, there is no significant concentration of credit risk. Accounts receivable are non-interest-bearing.

An aged analysis of the accounts receivable as at the end of the reporting period, based on payment due date and net of provisions, is as follows:

	Unaudited 30 June 2011 HK$'000	Audited 31 December 2010 HK$'000
Current (neither past due nor impaired)	62,921	76,042
Within 60 days past due	14,545	26,108
Over 60 days past due	6,177	7,778
	83,643	109,928

Included in the Group's accounts receivable are amounts totaling HK$5,575,000 (31 December 2010: HK$10,809,000) due from the Group's jointly-controlled entities which are repayable on credit terms comparable to those offered to other unrelated customers of the Group.

Certain of the above accounts receivable as at 30 June 2011 and 31 December 2010, which were factored to a bank in exchange for cash and the related bank loans, have been included as "Interest-bearing bank loans" on the face of the condensed consolidated statement of financial position (note 13).

11. NON-CURRENT ASSETS HELD FOR DISPOSAL

The non-current assets held for disposal included assets to be disposed of pursuant to the following transactions:

(a) To comply with the land policy of the local government, Pinghu Hop Hing Vegetable Oils Company, Limited ("Pinghu Hop Hing"), a 51% owned subsidiary of the Group, resolved during the period to sell its land and buildings to a third party property developer and cease the business operation of Pinghu Hop Hing (the "Pinghu Disposal"). The land and buildings and equipment of Pinghu Hop Hing to be sold pursuant to the agreements with relevant third party purchasers have been classified as current assets in the condensed consolidated statement of financial position as at 30 June 2011. Details of the Pinghu Disposal were disclosed in an announcement made by the Company on 7 June 2011.

(b) Sino Can Edible Oil Manufacturing & Technology Co. Ltd. ("Sino Can"), a wholly-owned subsidiary of the Group, resolved during the period to sell its property in PRC to two individual third party purchasers. The property has been classified as current assets in the condensed consolidated statement of financial position as at 30 June 2011. Details of the disposal were disclosed in an announcement made by the Company on 27 May 2011.

12. ACCOUNTS PAYABLE

An aged analysis of accounts payable as at the end of the reporting period, based on the payment due date, is as follows:

	Unaudited 30 June 2011 *HK$'000*	Audited 31 December 2010 *HK$'000*
Current and less than 60 days	36,357	58,441
Over 60 days	1,614	2,172
	37,971	60,613

The accounts payable are non-interest-bearing and are normally settled within credit terms of 7 to 60 days.

Included in the Group's accounts payable are amounts of HK$4,845,000 (31 December 2010: HK$9,496,000) due to certain companies associated with another venturer of the Group's jointly-controlled entities which are payable on credit terms comparable to those offered by other unrelated suppliers of the Group.

13. INTEREST-BEARING BANK LOANS

	Unaudited 30 June 2011 *HK$'000*	Audited 31 December 2010 *HK$'000*
Current (repayable within one year or on demand)		
Bank loans — unsecured	53,107	64,624
Bank loans on factored accounts receivable — unsecured *(note 10)*	14,053	6,183
Bank loans — secured *(note a)*	99,671	105,384
	166,831	176,191

Notes:

a. Certain of the Group's bank loans are secured by:

(i) legal charges over certain of the Group's land use rights, classified as prepaid land lease payments, and certain leasehold land and buildings and plant and machinery, which had aggregate carrying values as at 30 June 2011 of approximately HK$27,678,000 (31 December 2010: HK$27,541,000) and HK$94,287,000 (31 December 2010: HK$102,228,000), respectively; and

(ii) the pledge of certain of the Group's time deposits amounting to HK$38,100,000 (31 December 2010: HK$38,100,000)

Certain of Group's bank loans as at 31 December 2010 were secured by, in addition to the securities above, corporate guarantee of HK$10,588,000 given to a bank by an independent third party.

b. Secured interest-bearing bank loans included certain of the Group's bank loans of approximately HK$72,224,000 (31 December 2010: HK$70,528,000) in Mainland China which were borrowed by a PRC subsidiary of the Group and secured by certain property, plant and equipment and prepaid land lease payments of certain PRC subsidiaries and have no recourse to the Group other than those PRC subsidiaries.

c. Fixed interest rate bank loans of HK$72,224,000 (31 December 2010: HK$82,293,000) and floating interest rate bank loan of HK$27,447,000 (31 December 2010: HK$33,679,000) are denominated in Renminbi. All other bank loans are denominated in Hong Kong dollars with floating interest rates.

14. SHARE CAPITAL

a. During the period ended 30 June 2011, 9,955 ordinary shares of HK$0.10 each were issued for cash at a subscription price of HK$0.20 per share, pursuant to the exercise of the Company's warrants, for a total cash consideration, before expenses, of approximately HK$2,000.

b. During the period ended 30 June 2010, 384,478 ordinary shares of HK$0.10 each were issued for cash at a subscription price of HK$0.20 per share, pursuant to the exercise of the Company's warrants, for a total cash consideration, before expenses, of approximately HK$76,000.

15. COMMITMENTS

At the end of the reporting period, the Group had the following commitments for capital expenditure:

	Unaudited 30 June 2011	**Audited 31 December 2010**
	HK$'000	*HK$'000*
Property, plant and equipment:		
Contracted, but not provided for	1,150	174
Authorised, but not contracted for	13	19

16. CONTINGENT LIABILITIES

(a) As at 31 December 2010, the contingent liabilities of the Group in respect of guarantees given to a bank to secure a banking facility granted to a third party amounted to HK$11,765,000 (the "Guarantee").

(b) During the year ended 31 December 2010, the Hong Kong Inland Revenue Department (the "IRD") issued protective assessments for the years of assessment 2003/2004 to a jointly-controlled entity of the Group, in respect of which tax reserve certificate amounted to HK$2,800,000 was purchased. During the period, IRD issued protective assessments for the year of assessment 2004/2005 to the jointly-controlled entity and a subsidiary of the Group, in respect of which tax reserve certificates amounted to HK$4,000,000 and HK$1,500,000 were purchased respectively. The Group has lodged objections with the IRD against these assessments.

In the opinion of the directors, the Group has grounds to contest the protective tax assessments, thus provision for Hong Kong profits tax in respect of these assessments at this information gathering stage is not considered necessary.

17. RELATED PARTY TRANSACTIONS

(a) In addition to those transactions and balances disclosed elsewhere in the condensed consolidated financial statements, the Group had the following material transactions with related parties during the interim period:

		Unaudited For the six months ended 30 June	
		2011	2010
	Notes	*HK$'000*	*HK$'000*
Transactions with jointly-controlled entities*:			
Sales of goods	(i)	11,197	13,768
Production and oil refinement income	(ii)	32,123	24,920
Royalty income	(iii)	6,166	5,688
Property rental income	(iv)	181	181
Management fee income	(v)	2,383	2,320
Transactions with companies associated with the controlling shareholder of the Company and/or a non-executive director of the Company:			
Sales of goods	(i)	2,814	1,889
Rental expenses	(vi)	1,958	1,958
Interest expenses	(vii)	—	301

* The Group has proportionately consolidated 50% of its transactions with its jointly-controlled entities in the condensed consolidated income statement.

Notes:

(i) The sales of goods were on normal commercial terms in the ordinary and usual course of business of the Group.

(ii) The production and oil refinement income was based on agreements entered into with a jointly-controlled entity after an arm's length negotiation and was at rates not less favourable than those offered to other unrelated customers of the Group.

(iii) Pursuant to trademark license agreements entered into between the Group and certain jointly-controlled entities, the royalties received for the use of the trademarks are calculated based on a percentage, as agreed between the parties from time to time, on the gross sales value of licensed products sold by the Group's jointly-controlled entities within Hong Kong and Macau.

(iv) The property rental income related to subletting of certain properties. The property rental income was charged by reference to open market rental and was subject to review on a regular basis.

(v) The management fee income was based on the cost incurred for providing such services.

(vi) The rental expenses were paid by reference to open market rental and were subject to the terms of the relevant tenancies.

(vii) The interest expenses represented payments of interest on loans from related companies at the prevailing market rates.

(b) During the period ended 30 June 2010, Grand Synergy Investments Limited, a company incorporated in the British Virgin Islands and associated with a non-executive director of the Company, executed an indemnity deed (the "Indemnity") in favour of the Company for the purpose of indemnifying the Company against any loss or liability which the Company may incur in relation to the Guarantee (note 16), up to a maximum amount of RMB10,000,000 (equivalent to approximately HK$11,765,000). Details of the Indemnity were set out in the Company's announcement dated 16 April 2010.

18. APPROVAL OF THE INTERIM FINANCIAL REPORT

This interim financial report was approved and authorised for issue by the Board on 29 August 2011.

The following is the text of an accountants' report on the Summerfield Profits Limited received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, for the purpose of inclusion in this circular.

ERNST & YOUNG
安 永

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

30 December 2011

The Board of Directors
Hop Hing Group Holdings Limited

Dear Sirs,

We set out below our report on the financial information of Summerfield Profits Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for each of the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 (the "Relevant Periods"), the combined statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2008, 2009 and 2010 and 30 June 2011 together with the notes thereto (the "Financial Information"), and the comparative combined income statement, combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows of the Group for the six months ended 30 June 2010 (the "Comparative Financial Information"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the circular of Hop Hing Group Holdings Limited dated 30 December 2011 (the "Circular") in connection with a very substantial acquisition and connected transaction in relation to the acquisition of the entire issued share capital of the Company.

The Company was incorporated in the British Virgin Islands (the "BVI") on 23 March 2000 with limited liability under the International Business Companies Act of the BVI. Pursuant to a group reorganisation as further explained in section headed "History and Organisation of the Target Group" in the Circular (the "Reorganisation"), the Company became the holding company of the subsidiaries now comprising the Group. The principal activity of the Company is investment holding.

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

All companies now comprising the Group have adopted 31 December as their financial year end date. The financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. The particulars of the companies now comprising the Group and details of their auditors during the Relevant Periods are set out in note 2.1 of Section II below.

The Financial Information has been prepared based on the audited financial statements and, where appropriate, management accounts of the companies now comprising the Group, and have been prepared on the bases set out in notes 2.1 and 2.2 of Section II below.

DIRECTORS' RESPONSIBILITY

The directors of the Company (the "Directors") are responsible for the preparation of the Financial Information and the Comparative Financial Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Information and the Comparative Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Comparative Financial Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the Comparative Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Comparative Financial Information.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the bases of presentation and preparation set out in notes 2.1 and 2.2 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2008, 2009 and 2010 and 30 June 2011 and of the combined results and cash flows of the Group for each of the Relevant Periods.

REVIEW CONCLUSION IN RESPECT OF THE COMPARATIVE FINANCIAL INFORMATION

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

I. FINANCIAL INFORMATION

Combined income statements

		Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
REVENUE	5	778,041	955,925	1,234,212	562,374	743,117
Direct cost of stocks sold		(312,030)	(384,428)	(470,611)	(215,000)	(297,495)
Gross profit		466,011	571,497	763,601	347,374	445,622
Other income and gains, net	5	1,838	1,885	3,328	975	2,412
Selling expenses		(307,220)	(388,412)	(502,178)	(234,639)	(296,147)
Administrative expenses		(66,247)	(67,571)	(88,819)	(38,606)	(56,037)
Finance costs	6	(141)	(217)	(1,577)	(253)	(904)
PROFIT BEFORE TAX	7	94,241	117,182	174,355	74,851	94,946
Income tax expense	10	(32,632)	(36,038)	(53,917)	(23,930)	(30,326)
PROFIT FOR THE YEAR/ PERIOD	12	61,609	81,144	120,438	50,921	64,620
Attributable to:						
Equity holder of the Company		48,475	68,439	98,613	41,605	52,236
Non-controlling interests		13,134	12,705	21,825	9,316	12,384
		61,609	81,144	120,438	50,921	64,620

Details of the dividends for the Relevant Periods are disclosed in note 11 to the Financial Information.

Combined statements of comprehensive income

	Year ended 31 December			Six months ended 30 June	
	2008	**2009**	**2010**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
PROFIT FOR THE YEAR/PERIOD	61,609	81,144	120,438	50,921	64,620
OTHER COMPREHENSIVE INCOME/ (LOSS):					
Exchange differences on translation of foreign operations	7,622	(553)	7,966	1,548	5,689
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	69,231	80,591	128,404	52,469	70,309
Attributable to:					
Equity holder of the Company	54,487	67,837	104,729	42,680	56,488
Non-controlling interests	14,744	12,754	23,675	9,789	13,821
	69,231	80,591	128,404	52,469	70,309

Combined statements of financial position

		31 December			30 June
		2008	2009	2010	2011
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS					
Property, plant and equipment	14	111,822	141,902	170,941	176,619
Rental deposits	15	17,915	19,937	25,860	27,034
Total non-current assets		129,737	161,839	196,801	203,653
CURRENT ASSETS					
Stocks	17	34,257	53,019	53,894	104,192
Accounts receivable	18	2,827	3,042	3,329	4,358
Securities at fair value through profit or loss	19	—	1,233	1,512	1,547
Prepayments, deposits and other receivables	15	19,299	26,371	49,563	36,089
Due from a director	20	1,036	1,683	—	—
Due from the immediate holding company	20	—	—	7,800	7,800
Due from related companies	20	17,542	60,709	32,908	37,115
Cash and cash equivalents	21	109,954	109,639	193,696	234,884
Total current assets		184,915	255,696	342,702	425,985
CURRENT LIABILITIES					
Accounts payable	22	55,091	65,387	83,139	90,267
Other payables and accrued charges	23	77,380	88,784	112,214	125,870
Due to related companies	20	58,285	34,375	81,069	72,371
Interest-bearing bank loan	24	—	23,852	24,722	25,284
Tax payable		7,056	7,430	3,563	6,429
Total current liabilities		197,812	219,828	304,707	320,221
NET CURRENT ASSETS/(LIABILITIES)		(12,897)	35,868	37,995	105,764
TOTAL ASSETS LESS CURRENT LIABILITIES		116,840	197,707	234,796	309,417
NON-CURRENT LIABILITIES					
Deferred tax liabilities	25	4,988	9,017	18,373	25,269
Net assets		111,852	188,690	216,423	284,148
EQUITY					
Equity attributable to equity holder of the Company					
Issued share capital	26	—	—	—	—
Reserves	27	81,394	149,231	164,280	220,768
		81,394	149,231	164,280	220,768
Non-controlling interests		30,458	39,459	52,143	63,380
Total equity		111,852	188,690	216,423	284,148

Combined statements of changes in equity

	Attributable to the equity holder of the Company							
	Issued capital	**Capital reserve***	**Statutory reserve***	**Exchange fluctuation reserve***	**Retained profits***	**Total**	**Non-controlling interests**	**Total equity**
	HK$'000	*HK$'000* *(note a)*	*HK$'000* *(note b)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008	—	—	11,397	8,494	7,016	26,907	17,197	44,104
Profit for the year	—	—	—	—	48,475	48,475	13,134	61,609
Exchange differences on translation of foreign operations	—	—	—	6,012	—	6,012	1,610	7,622
Total comprehensive income for the year	—	—	—	6,012	48,475	54,487	14,744	69,231
Dividend paid to non-controlling interests	—	—	—	—	—	—	(1,233)	(1,233)
Repayment to non-controlling interests	—	—	—	—	—	—	(250)	(250)
Transfer to statutory reserve	—	—	1,478	—	(1,478)	—	—	—
At 31 December 2008 and 1 January 2009	—	—	12,875	14,506	54,013	81,394	30,458	111,852
Profit for the year	—	—	—	—	68,439	68,439	12,705	81,144
Exchange differences on translation of foreign operations	—	—	—	(602)	—	(602)	49	(553)
Total comprehensive income for the year	—	—	—	(602)	68,439	67,837	12,754	80,591
Dividend paid to non-controlling interests	—	—	—	—	—	—	(3,753)	(3,753)
Transfer to statutory reserve	—	—	5,336	—	(5,336)	—	—	—
At 31 December 2009	—	—	18,211	13,904	117,116	149,231	39,459	188,690

	Attributable to the equity holder of the Company							
	Issued capital	**Capital reserve***	**Statutory reserve***	**Exchange fluctuation reserve***	**Retained profits***	**Total**	**Non-controlling interests**	**Total equity**
	HK$'000	*HK$'000* *(note a)*	*HK$'000* *(note b)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	—	—	18,211	13,904	117,116	149,231	39,459	188,690
Profit for the year	—	—	—	—	98,613	98,613	21,825	120,438
Exchange differences on translation of foreign operations	—	—	—	6,116	—	6,116	1,850	7,966
Total comprehensive income for the year	—	—	—	6,116	98,613	104,729	23,675	128,404
Loan from non-controlling interest	—	—	—	—	—	—	2,583	2,583
Disposal of subsidiaries *(note 29)*	—	10,617	—	457	—	11,074	56	11,130
Deregistration of a subsidiary	—	—	(285)	(269)	—	(554)	289	(265)
Transfer to statutory reserve	—	—	7,207	—	(7,207)	—	—	—
Dividend paid to non-controlling interests	—	—	—	—	—	—	(2,519)	(2,519)
2010 interim dividends *(note 11)*	—	—	—	—	(100,200)	(100,200)	(11,400)	(111,600)
At 31 December 2010 and 1 January 2011	—	10,617	25,133	20,208	108,322	164,280	52,143	216,423
Profit for the period	—	—	—	—	52,236	52,236	12,384	64,620
Exchange differences on translation of foreign operations	—	—	—	4,252	—	4,252	1,437	5,689
Total comprehensive income for the period	—	—	—	4,252	52,236	56,488	13,821	70,309
Repayment to non-controlling interests	—	—	—	—	—	—	(2,584)	(2,584)
At 30 June 2011	—	10,617	25,133	24,460	160,558	220,768	63,380	284,148

	Attributable to the equity holder of the Company							
	Issued capital	**Capital reserve***	**Statutory reserve***	**Exchange fluctuation reserve***	**Retained profits***	**Total**	**Non-controlling interests**	**Total equity**
	HK$'000	*HK$'000* (*note a*)	*HK$'000* (*note b*)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	—	—	18,211	13,904	117,116	149,231	39,459	188,690
Profit for the period	—	—	—	—	41,605	41,605	9,316	50,921
Exchange differences on translation of foreign operations	—	—	—	1,075	—	1,075	473	1,548
Total comprehensive income for the period	—	—	—	1,075	41,605	42,680	9,789	52,469
Disposal of subsidiaries (*note 29*)	—	10,617	—	457	—	11,074	56	11,130
Deregistration of a subsidiary	—	—	(285)	(269)	—	(554)	289	(265)
Transfer to statutory reserve	—	—	870	—	(870)	—	—	—
At 30 June 2010 (unaudited)	—	10,617	18,796	15,167	157,851	202,431	49,593	252,024

* These reserve accounts comprise the combined reserves of HK$81,394,000, HK$149,231,000, HK$164,280,000, HK$202,431,000 and HK$220,768,000 in the combined statements of financial position as at 31 December 2008, 2009 and 2010 and 30 June 2010 and 2011, respectively.

Notes:

(a) The capital reserve represented the difference between the consideration received for the disposal of subsidiaries to the immediate holding company and the carrying value of the net assets of the respective subsidiaries net of non-controlling interests and the release of exchange fluctuation reserve pursuant to a group reorganisation on 18 June 2010.

(b) In accordance with the Company Law of the People's Republic of China (the "PRC"), the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 50% of the registered capital after such usages.

Combined statements of cash flows

		Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		94,241	117,182	174,355	74,851	94,946
Adjustments for:						
Interest income	5	(1,695)	(1,897)	(2,055)	(543)	(1,107)
Finance costs	6	141	217	1,577	253	904
Depreciation	7	41,089	50,305	62,601	33,067	40,756
Loss on disposal/write-off of items of property, plant and equipment	7	3,840	2,329	1,175	427	270
Gain on disposal of securities at fair value through profit or loss	7	—	—	(423)	—	—
		137,616	168,136	237,230	108,055	135,769
Decrease/(increase) in stocks		(15,933)	(18,762)	(1,892)	1,383	(50,298)
Decrease/(increase) in accounts receivable		261	(215)	(296)	(568)	(1,029)
Decrease/(increase) in prepayments, deposits and other receivables		(10,879)	(9,094)	(29,307)	(4,076)	12,300
Decrease/(increase) in an amount due from a director		1,012	(647)	1,683	(592)	—
Decrease/(increase) in amounts due from related companies		(3,107)	(43,167)	2,819	(37,545)	(4,207)
Increase in accounts payable		14,057	10,296	18,055	5,920	7,128
Increase in other payables and accrued charges		20,332	11,404	23,799	7,563	13,656
Increase/(decrease) in amounts due to related companies		(20,051)	(23,910)	74,833	42,239	(8,698)
Cash generated from operations		123,308	94,041	326,924	122,379	104,621
Interest received		1,695	1,897	2,055	543	1,107
Hong Kong profits tax paid		(2,158)	(3,279)	(108)	—	(864)
Overseas taxes paid		(28,179)	(28,360)	(47,837)	(20,089)	(20,184)
Net cash flows from operating activities		94,666	64,299	281,034	102,833	84,680

		Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(69,986)	(82,696)	(89,186)	(45,446)	(42,797)
Decrease/(increase) in an amount due from a related company		(11,364)	—	11,364	—	—
Disposal of subsidiaries	29	—	—	(9,540)	(9,540)	—
Deregistration of a subsidiary		—	—	(265)	(265)	—
Decrease/(increase) in securities at fair value through profit or loss		—	(1,233)	144	(1,063)	(35)
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		(30,438)	9,621	(10,224)	(16,243)	(51,372)
Net cash flows used in investing activities		(111,788)	(74,308)	(97,707)	(72,557)	(94,204)
CASH FLOWS FROM FINANCING ACTIVITIES						
Loan from/(repayment to) non-controlling interests		(250)	—	2,583	—	(2,584)
Dividend paid to non-controlling interests		(1,233)	(3,753)	(13,919)	—	—
Interest paid		(141)	(217)	(1,577)	(253)	(904)
Increase in interest-bearing bank loan		—	23,852	870	261	562
Dividends paid		—	—	(100,200)	—	—
Net cash flows from/(used in) financing activities		(1,624)	19,882	(112,243)	8	(2,926)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(18,746)	9,873	71,084	30,284	(12,450)
Cash and cash equivalents at beginning of year/period		91,727	75,240	84,546	84,546	158,379
Effect of foreign exchange rate changes, net		2,259	(567)	2,749	45	2,266
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		75,240	84,546	158,379	114,875	148,195
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and cash equivalents as stated in the combined statements of financial position	21	109,954	109,639	193,696	156,211	234,884
Less: non-pledged time deposits with original maturity of more than three months when acquired	21	(34,714)	(25,093)	(35,317)	(41,336)	(86,689)
Cash and cash equivalents as stated in the combined statements of cash flows		75,240	84,546	158,379	114,875	148,195

Statements of financial position

Company

		31 December			30 June
		2008	2009	2010	2011
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS					
Interests in subsidiaries	16	8,800	8,800	1,000	1,000
CURRENT ASSETS					
Other receivables	15	117	—	—	—
Due from the immediate holding company	20	—	—	7,800	7,800
Due from subsidiaries	16	14,748	14,900	15,285	15,302
Due from related companies	20	2	33,029	163	215
Total current assets		14,867	47,929	23,248	23,317
CURRENT LIABILITIES					
Due to subsidiaries	16	2,625	2,625	2,625	2,625
Due to related companies	20	21,086	21,192	21,596	21,670
Total current liabilities		23,711	23,817	24,221	24,295
NET CURRENT ASSETS/(LIABILITIES)		(8,844)	24,112	(973)	(978)
Net assets/(liabilities)		(44)	32,912	27	22
EQUITY/(DEFICIENCY IN ASSETS)					
Issued share capital	26	—	—	—	—
Retained profits/(accumulated losses)	27(b)	(44)	32,912	27	22
Total equity/(deficiency in assets)		(44)	32,912	27	22

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the BVI on 23 March 2000 under the International Business Act of the BVI. The Company's registered office is located at Offshore Incorporations Limited, PO Box 957, Offshore Incorporations Centre, Road Town, Tortola, the BVI.

The Company is an investment holding company. During the Relevant Periods, the Group is principally engaged in the operation of fast food restaurants chain and ice-cream shops. In the opinion of the Directors, the immediate and ultimate holding companies of the Company as at 30 June 2011 is Webshine Developments Limited and Konview (BVI) Limited, respectively, which were incorporated in the BVI.

2.1 GROUP REORGANISATION AND BASIS OF PRESENTATION

The companies now comprising the Group underwent a reorganisation (the "Reorganisation") to rationalise the existing group structure for the purpose of the proposed acquisition of entire issued share capital of the Company by Hop Hing Group Holdings Limited as described in the section headed "History and Organisation of the Target Group" in the Circular.

The Financial Information has been prepared in accordance with the principles of merger accounting as set out in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, as if the Reorganisation had been completed at the beginning of the Relevant Periods because the acquisition of the companies except for, Hung's China (Beijing) Limited and Amazing Limited (collectively referred as "Hung's China Group") in the Reorganisation by Hawick Limited, a wholly-owned subsidiary of the Company, were regarded as a business combination under common control of The H H Hung (2000) Discretionary Trust, the ultimate controlling shareholder of the Company before and after the Reorganisation. The Directors considered that The H H Hung (2000) Discretionary Trust, of which its wholly-owned subsidiary, Hop Hing (Ginger) Limited ("Ginger"), indirectly holds 50% equity interest of the Company and Hop Hing Investment (Liaoning) Company Limited, has control over the Group because the non-controlling shareholder (the "MI") which indirectly holds the remaining 50% equity interest of the Company and Hop Hing Investment (Liaoning) Company Limited, agreed to exercise its voting rights in accordance with the instructions of Ginger.

Miscellaneous (2008) Limited is also ultimately controlled by The H H Hung (2000) Discretionary Trust. Accordingly, the companies, except for Hung's China Group, now comprising the Group are controlled by The H H Hung (2000) Discretionary Trust, the ultimate controlling shareholder of the Company before and after the Reorganisation.

For the purpose of this report, the combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the dates when the subsidiaries first came under the common control of the controlling shareholder, where this is a shorter period. The combined statements of financial position of the Group as at 31 December 2008, 2009 and 2010 and 30 June 2011 have been prepared to present the assets and liabilities of the Group using the existing carrying values from the controlling shareholder perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Equity interests in subsidiaries and/or business held by parties other than the controlling shareholder prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting.

As at 30 June 2011, the Group had interests in the following subsidiaries, all of which are private companies in Hong Kong (or, if incorporated/established outside Hong Kong, have characteristics substantially similar to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company name	Place and date of incorporation/ establishment and operation	Nominal value of issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company	Principal activities
Hop Hing (Anegada) Limited[1]	BVI/Hong Kong ("HK") 24 November 1989	US$1	100	Investment holding
Hop Hing Investment (Liaoning) Company Limited[1]	BVI/HK 19 April 1993	US$1	50	Investment holding
Asset Paradise Limited[1]	BVI/HK 20 March 2003	US$1	100	Investment holding
Hop Hing Fast Food China North Investment Co. Ltd.[1] 合興快餐(中國北方)投資有限公司	BVI/HK 7 December 1992	US$1	100	Investment holding and provision of management services
Best Realm Profits Limited[1]	BVI/HK 3 December 2004	US$1	100	Investment holding
Hop Hing Franchise Limited[2,3,4] 合興特許有限公司	HK 17 December 2004	HK$1	100	Provision of management services
Hop Hing Fast Food Limited[2,3,4] 合興快餐有限公司	HK 19 April 1988	HK$7,000,000	100	Provision of management services
Starwood Shine Limited[2,3,4] 星活有限公司	HK 8 June 2007	HK$1	100	Investment holding
Excel Leader Group Limited[4,5] 智領集團有限公司	HK 22 August 2007	HK$1	50	Investment holding
Bravo Gain Holdings Limited[4,5] 佳得控股有限公司	HK 22 August 2007	HK$1	50	Investment holding
Hawick Limited[4,6] 夏域有限公司	HK 1 July 1988	HK$1,000,000	100	Investment holding
Champ Base Investments Limited[7] 迅機投資有限公司	HK 18 January 2010	HK$1	100	Provision of management services
Beijing Yoshinoya Fast Food Co., Ltd.*[8,9] 北京吉野家快餐有限公司	PRC 16 June 1997	RMB18,770,000	90	Fast food restaurant operation

Company name	Place and date of incorporation/ establishment and operation	Nominal value of issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company	Principal activities
Liaoning Hop Hing Fast Food Co., Ltd.*[10] 遼寧合興快餐有限公司	PRC 2 August 1995	HK$9,100,000	50	Fast food restaurant operation
Dalian Hexing Fast Food Co., Ltd.*[11] 大連合興快餐有限公司	PRC 5 October 1997	US$800,000	50	Fast food restaurant operation
HuHeHaoTe Hop Hing Catering Management Co., Ltd.*[12,13,14] 呼和浩特合興隆餐飲管理有限公司	PRC 23 April 2008	RMB500,000	100	Fast food restaurant operation
Inner Mongolia Xingmeng Foods Development Co., Ltd.#[15,16] 內蒙古興蒙快餐開發有限公司	PRC 13 May 1993	RMB3,800,000	84.21	Fast food restaurant operation

On 5 August 2011, Harbin Hop Hing Catering Management Co., Ltd.* ("哈爾濱合興餐飲管理有限公司") was established in the PRC with a registered capital of RMB2,000,000.

As at the date of this report, except for Hawick Limited which was directly held by the Company, all subsidiaries were indirectly held by the Company.

Notes:

* Registered as wholly-foreign-owned enterprises under the laws of the PRC.

\# Registered as a Sino-foreign equity joint venture enterprises under the laws of the PRC.

1 No audited financial statements have been prepared for these companies since they are not subject to any statutory audit requirements under their jurisdiction of incorporation.

2 The statutory financial statements for the year ended 31 December 2008 were audited by Yip, Leung & So Limited.

3 The statutory financial statements for the year ended 31 December 2009 were audited by Ernst & Young, certified public accountants registered in Hong Kong.

4 The statutory financial statements for the year ended 31 December 2010 were audited by T.O. Yip & Company Limited.

5 The statutory financial statements for the period from 22 August 2007 (date of incorporation) to 31 December 2008 and the year ended 31 December 2009 were audited by Ernst & Young, certified public accountants registered in Hong Kong.

6 The statutory financial statements for the years ended 31 December 2008 and 2009 were audited by Ernst & Young, certified public accountants registered in Hong Kong.

7 The statutory financial statements for the period from 18 January 2010 (date of incorporation) to 31 December 2010 were audited by T.O. Yip & Company Limited.

8 The statutory financial statements for the year ended 31 December 2008 were audited by 北京京都天華會計師事務所 ("Beijing Jingdu Tianhua Certified Public Accountants", now known as Jingdu Tianhua Certified Public Accountants Limited).

9 The statutory financial statements for the years ended 31 December 2009 and 2010 were audited by 京都天華會計師事務所有限公司 ("Jingdu Tianhua Certified Public Accountants Limited").

10 The statutory financial statements for the years ended 31 December 2008, 2009 and 2010 were audited by 遼寧中衡會計師事務所有限責任公司 ("Liaoning Zhongheng Certified Public Accountants Limited").

11 The statutory financial statements for the years ended 31 December 2008, 2009 and 2010 were audited by 大連天合聯合會計師事務所 ("Dalian Tianhe United Certified Public Accountants").

12 The statutory financial statements for the period from 23 April 2008 (date of incorporation) to 31 December 2008 were audited by 內蒙古華才會計師事務所有限公司 ("Neimenggu Huacai Certified Public Accountants Limited").

13 The statutory financial statements for the year ended 31 December 2009 were audited by 呼和浩特市建盈聯合會計師事務所 ("Huhehaoteshi Jianying United Certified Public Accountants").

14 The statutory financial statements for the year ended 31 December 2010 were audited by 內蒙古海容蘭德會計師事務所有限公司 ("Neimenggu Haironglande Certified Public Accountants Limited").

15 The statutory financial statements for the year ended 31 December 2008 were audited by 呼和浩特市建盈聯合會計師事務所 ("Huhehaoteshi Jianying United Certified Public Accountants").

16 During the year ended 31 December 2009, the subsidiary commenced its deregistration process after the expiry of its operation period. Up to the date of this report, the deregistration process was still in progress.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting periods commencing from 1 January 2008, 2009, 2010 and 2011, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

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

The Financial Information has been prepared under the historical cost convention, except for securities at fair value through profit or loss which have been measured at fair value. For the purpose of the preparation of the Financial Information for inclusion in the Circular, the management considered to follow the presentation currency of Hop Hing Group Holdings Limited. Therefore, the Financial Information is presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 (Revised)	*Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income taxes — Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HK(IFRIC) — Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of combination

This Financial Information incorporates the financial statements of the Company and its subsidiaries for the Relevant Periods. As explained in note 2.1 above, the acquisition of subsidiaries under common control has been accounted for using the merger method of accounting.

The merger method of accounting involves incorporating the financial statement 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 or businesses first came under the control of the controlling party. No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination. The combined income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control or since their respective dates of incorporation/establishment, where this is a shorter period, regardless of the date of the common control combination.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on combination.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for an equity transaction.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person (i) has controls or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

(b) the party is an entity where:

(i) The entity and the Group are members of the same group;

(ii) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(iii) the entity is controlled or jointly controlled by a person identified in (a); or

(iv) a person identified in (a)(i) has significant influence over an entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the shorter of the lease terms and 33.33%
Furniture and fixtures	20% to 33.33%
Equipment	20% to 33.33%
Motor vehicles	10% to 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year/period end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year/period the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than stocks and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at the end of each of the reporting periods as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, time deposits, securities at fair value through profit or loss, accounts and other receivables, deposits, and amounts due from a director, the immediate holding company and related companies.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each of the reporting periods whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include accounts and other payables, accrued charges, an interest-bearing bank loan and amounts due to related companies.

Subsequent measurement

Loans and borrowings

After initial recognition, interest-bearing bank loan is subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case it is stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Stocks

Stocks are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow moving items. Cost is determined on a weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each of the reporting periods of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the reporting periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the reporting periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the reporting periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the reporting periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the reporting periods.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of food and beverage products from fast food restaurants and ice-cream shops at the point of sale to customer;

(b) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholder's right to receive payment has been established.

Employee benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Foreign currencies

The functional currency of the Company is Renminbi ("RMB") while the Financial Information is presented in HK$. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of each of the reporting periods. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the end of each of the reporting periods, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of each of the reporting periods and their income statements are translated into HK$ at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the combined statements of cash flows, the cash flows of subsidiaries are translated into HK$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries which arise throughout the year are translated into HK$ at the weighted average exchange rates for each of the reporting periods.

3.2 SIGNIFICANT ACCOUNTING JUDGEMENTS

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Information:

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in preparing cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical of commercial obsolescence arising from changes or improvements in the production and provision of services, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at the end of each reporting period based on changes in circumstances.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the sale of food and beverage products through a chain of fast food restaurants and ice-cream shops. Information reported to the Group's management for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. In addition, all the Group's revenue, results and assets relate to the fast food restaurants and ice-cream shops segment. Accordingly, no operating segment information is presented.

As the Group's customers and non-current assets are solely in the People's Republic of China, no further analysis on the geographical information thereof is presented.

As no customer of the Group has individually accounted for over 10% of the Group's total revenue during the Relevant Periods, no information about major customers is presented.

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents the net invoiced value of food and beverage products sold, net of relevant business tax and allowances for returns and trade discounts. An analysis of revenue, other income and gains is as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	**2009**	**2010**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Revenue					
Sale of food and beverage products from fast food restaurants and ice-cream shops	778,041	955,925	1,234,212	562,374	743,117
Other income and gains, net					
Bank interest income	1,111	1,211	1,430	242	1,107
Loan interest income	584	686	625	301	—
Compensation	295	575	996	284	1,627
Exchange gains/(losses), net	(696)	(628)	(170)	126	(338)
Gain on disposal of securities at fair value through profit or loss	—	—	423	—	—
Others	544	41	24	22	16
	1,838	1,885	3,328	975	2,412

6. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest on a bank loan wholly repayable within five years	—	—	1,188	113	707
Others	141	217	389	140	197
	141	217	1,577	253	904

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Direct cost of stocks sold	312,030	384,428	470,611	215,000	297,495
Depreciation	41,089	50,305	62,601	33,067	40,756
Lease payments under operating leases in respect of land and buildings					
— Minimum lease payments	86,242	114,238	146,083	68,718	85,438
— Contingent rents	13,215	14,884	21,583	10,140	14,507
Employee benefit expenses (excluding Directors' remuneration *(note 8)*):					
Wages and salaries	72,896	91,828	126,707	56,065	79,678
Retirement benefit scheme contributions	25,158	34,182	43,201	21,666	23,811
	98,054	126,010	169,908	77,731	103,489
Auditors' remuneration	54	127	1,897	—	1,430
Loss on disposal/write-off of items of property, plant and equipment	3,840	2,329	1,175	427	270
Gain on disposal of securities at fair value through profit or loss	—	—	(423)	—	—
Exchange losses/(gains), net	696	628	170	(126)	338
Bank interest income	(1,111)	(1,211)	(1,430)	(242)	(1,107)
Loan interest income	(584)	(686)	(625)	(301)	—

8. DIRECTORS' REMUNERATION

Details of the Directors' remuneration are as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Fees	180	240	240	120	120
Other emoluments:					
Salaries, bonuses, allowances and benefits in kind	1,481	1,500	1,517	678	708
Retirement benefit scheme contributions	—	—	—	—	—
	1,661	1,740	1,757	798	828

Executive directors

	Fees	Salaries, bonuses, allowances and benefits in kind	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2008				
Lee Pak Wing	—	989	—	989
Chan Shek Yiu	—	—	—	—
Hung Ming Kei, Marvin	180	492	—	672
Hung Cee Kay, Celeste	—	—	—	—
	180	1,481	—	1,661
Year ended 31 December 2009				
Lee Pak Wing	—	1,002	—	1,002
Chan Shek Yiu	—	—	—	—
Hung Ming Kei, Marvin	240	498	—	738
Hung Cee Kay, Celeste	—	—	—	—
	240	1,500	—	1,740
Year ended 31 December 2010				
Lee Pak Wing	—	1,013	—	1,013
Chan Shek Yiu	—	—	—	—
Hung Ming Kei, Marvin	240	504	—	744
Hung Cee Kay, Celeste	—	—	—	—
	240	1,517	—	1,757

	Fees	Salaries, bonuses, allowances and benefits in kind	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 30 June 2010 (unaudited)				
Lee Pak Wing	—	428	—	428
Chan Shek Yiu	—	—	—	—
Hung Ming Kei, Marvin	120	250	—	370
Hung Cee Kay, Celeste	—	—	—	—
	120	678	—	798
Six months ended 30 June 2011				
Lee Pak Wing	—	447	—	447
Chan Shek Yiu	—	—	—	—
Hung Ming Kei, Marvin	120	261	—	381
Hung Cee Kay, Celeste	—	—	—	—
	120	708	—	828

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID EMPLOYEES

During the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010, two of the highest paid individuals were directors of the Company. During the year ended 31 December 2010 and the six months ended 30 June 2011, one of the highest paid individuals was a director of the Company.

Details of the remuneration of the remaining three non-directors, highest paid employees during the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010 and the four non-director, highest paid employees during the year ended 31 December 2010 and the six months ended 30 June 2011 are analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Salaries, bonuses, allowances and benefits in kind	1,791	2,881	4,389	1,322	2,360
Retirement benefit scheme contributions	86	134	171	106	99
	1,877	3,015	4,560	1,428	2,459

The number of these non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
				(Unaudited)	
Nil to HK$1,000,000	3	2	1	3	4
HK$1,000,001 to HK$1,500,000	—	1	3	—	—
	3	3	4	3	4

During the Relevant Periods, no remuneration was paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong at the rate of 16.5% for the years ended 31 December 2008, 2009 and 2010 and the six months periods ended 30 June 2010 and 2011. Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the locations in which the Group operates.

Pursuant to the Corporate Income Tax Law (the "New PRC Tax Law") of the PRC being effective on 1 January 2008, the PRC corporate income tax rate for the Group's subsidiaries operated in Mainland China during the Relevant Periods was 25% on their taxable profits.

The major components of the income tax expense for the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Current — Hong Kong					
Charged for the year/period	2,733	964	955	382	548
Overprovision in prior years	—	—	(932)	—	—
Current — Elsewhere					
Charged for the year/period	24,978	29,867	43,554	19,175	23,366
Deferred tax *(note 25)*	4,921	5,207	10,340	4,373	6,412
Total tax charge for the year/period	32,632	36,038	53,917	23,930	30,326

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rates for the regions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	**2009**	**2010**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit before tax	94,241	117,182	174,355	74,851	94,946
Tax at the statutory tax rates	22,223	27,495	41,622	17,587	22,928
Adjustment in respect of current tax of prior years/periods	—	—	(932)	—	—
Income not subject to tax	(520)	(302)	(32)	—	(314)
Expenses not deductible for tax	4,007	2,822	2,706	1,757	1,300
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	4,921	5,207	10,340	4,373	6,412
Tax losses not recognised	2,001	816	213	213	—
Tax charge at the Group's effective tax rates	32,632	36,038	53,917	23,930	30,326

11. DIVIDENDS

The dividends paid by the Company and one of the Company's subsidiaries, Hop Hing Investment (Liaoning) Company Limited, to their shareholders during the Relevant Periods were as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	**2009**	**2010**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interim dividends	—	—	111,600	—	—

The interim dividends for the year ended 31 December 2010 of HK$88,800,000 and HK$22,800,000 were paid by the Company and Hop Hing Investment (Liaoning) Company Limited, respectively, to their shareholders. Out of the total interim dividends, HK$11,400,000 was paid to a non-controlling shareholder of Hop Hing Investment (Liaoning) Company Limited.

The dividend rates are not presented as such information is considered not meaningful for the purpose of this report.

12. PROFIT FOR THE YEAR/PERIOD ATTRIBUTABLE TO EQUITY HOLDER OF THE COMPANY

The combined profit attributable to equity holder of the Company for the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011 includes losses of HK$5,000, HK$4,000, HK$5,000 and HK$5,000, respectively, which have been dealt with in the financial statements of the Company (note 27(b)).

13. EARNINGS PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDER OF THE COMPANY

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Relevant Periods on a combined basis as disclosed in note 2.1 above.

14. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and leasehold improvements	Equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Group				
31 December 2008				
Cost:				
At 1 January 2008	59,447	87,130	1,176	147,753
Additions	37,118	31,345	1,523	69,986
Disposals/write-off	(5,154)	(6,210)	(238)	(11,602)
Exchange realignment	4,155	5,773	91	10,019
At 31 December 2008	95,566	118,038	2,552	216,156
Accumulated depreciation:				
At 1 January 2008	24,231	41,605	582	66,418
Provided during the year	25,751	15,081	257	41,089
Disposals/write-off	(2,451)	(5,097)	(214)	(7,762)
Exchange realignment	1,834	2,718	37	4,589
At 31 December 2008	49,365	54,307	662	104,334
Net book value:				
At 31 December 2008	46,201	63,731	1,890	111,822
At 1 January 2008	35,216	45,525	594	81,335

	Furniture, fixtures and leasehold improvements HK$'000	Equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Group				
31 December 2009				
Cost:				
At 1 January 2009	95,566	118,038	2,552	216,156
Additions	37,994	44,349	353	82,696
Disposals/write-off	(709)	(6,233)	(180)	(7,122)
Exchange realignment	26	25	—	51
At 31 December 2009	132,877	156,179	2,725	291,781
Accumulated depreciation:				
At 1 January 2009	49,365	54,307	662	104,334
Provided during the year	30,292	19,580	433	50,305
Disposals/write-off	(499)	(4,262)	(32)	(4,793)
Exchange realignment	24	9	—	33
At 31 December 2009	79,182	69,634	1,063	149,879
Net book value:				
At 31 December 2009	53,695	86,545	1,662	141,902
Group				
31 December 2010				
Cost:				
At 1 January 2010	132,877	156,179	2,725	291,781
Additions	52,392	36,508	286	89,186
Disposals/write-off	(4,208)	(7,395)	(7)	(11,610)
Disposal of subsidiaries *(note 29)*	(2,511)	(2,950)	—	(5,461)
Exchange realignment	6,020	6,356	107	12,483
At 31 December 2010	184,570	188,698	3,111	376,379
Accumulated depreciation:				
At 1 January 2010	79,182	69,634	1,063	149,879
Provided during the year	36,916	25,214	471	62,601
Disposals/write-off	(3,734)	(6,700)	(1)	(10,435)
Disposal of subsidiaries *(note 29)*	(2,113)	(1,205)	—	(3,318)
Exchange realignment	3,687	2,973	51	6,711
At 31 December 2010	113,938	89,916	1,584	205,438
Net book value:				
At 31 December 2010	70,632	98,782	1,527	170,941

	Furniture, fixtures and leasehold improvements	Equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Group				
30 June 2011				
Cost:				
At 1 January 2011	184,570	188,698	3,111	376,379
Additions	18,132	24,063	602	42,797
Disposals/write-off	—	(1,432)	(2)	(1,434)
Exchange realignment	4,387	4,520	77	8,984
At 30 June 2011	207,089	215,849	3,788	426,726
Accumulated depreciation:				
At 1 January 2011	113,938	89,916	1,584	205,438
Provided during the period	24,768	15,708	280	40,756
Disposals/write-off	—	(1,164)	—	(1,164)
Exchange realignment	2,849	2,189	39	5,077
At 30 June 2011	141,555	106,649	1,903	250,107
Net book value:				
At 30 June 2011	65,534	109,200	1,885	176,619

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	31 December			30 June
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments	15,188	20,154	43,213	28,990
Deposits	19,740	24,350	29,013	31,635
Other receivables	2,286	1,804	3,197	2,498
	37,214	46,308	75,423	63,123
Current portion included in prepayments, deposits and other receivables	(19,299)	(26,371)	(49,563)	(36,089)
Non-current portion: rental deposit	17,915	19,937	25,860	27,034

Company

	31 December			30 June
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other receivables	117	—	—	—

At 31 December 2008, 2009 and 2010 and 30 June 2011, the balances of deposits and other receivables were neither past due nor impaired. Financial assets included in the above balances relate to receivables for which there was no recent history of default.

16. INTERESTS IN SUBSIDIARIES

Company

	31 December			30 June
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares, at cost	8,800	8,800	1,000	1,000

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

17. STOCKS

	31 December			30 June
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Food and beverage	29,002	47,287	43,450	86,813
Consumables	5,255	5,732	10,444	17,379
	34,257	53,019	53,894	104,192

18. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on cash. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Accounts receivable are non-interest-bearing.

Receivables were neither past due nor impaired and relate mainly to accounts receivable from shopping malls for whom there was no recent history of default.

19. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Group

	31 December			30 June
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Listed equity investments in the PRC, at market value	—	1,233	1,512	1,547

The above equity investments were classified as held for trading as at the end of each of the Relevant Periods.

20. BALANCES WITH THE IMMEDIATE HOLDING COMPANY, A DIRECTOR AND RELATED COMPANIES

Particulars of the amounts due from a director and related companies, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

31 December 2008

Group

	31 December 2008	Maximum amount outstanding during the year	1 January 2008
	HK$'000	*HK$'000*	*HK$'000*
Director			
Mr. Hung Ming Kei, Marvin	1,036	2,048	2,048
Related companies			
Ginger	103	103	93
Hop Hing Properties Limited	298	298	298
Pinta Profits Limited	94	94	94
Whole Strength Group Limited	137	137	—
大連合興比薩有限公司 ("Dalian Hop Hing Pizza Company Limited")	5,239	5,239	2,471
番禺合興油脂有限公司 ("Panyu Hop Hing Oils & Fats Co., Ltd.")	11,364	11,364	—
北京合興潮百合餐飲管理有限公司 ("Beijing Hophing Chaobaihe Catering Management Limited")	209	209	—
Others	98	115	115
	17,542		3,071

Company

	31 December 2008	Maximum amount outstanding during the year	1 January 2008
	HK$'000	*HK$'000*	*HK$'000*
Related company			
Hung's China Liaoning Limited	2	2	2

31 December 2009

Group

	31 December 2009 *HK$'000*	**Maximum amount outstanding during the year** *HK$'000*	**1 January 2009** *HK$'000*
Director			
Mr. Hung Ming Kei, Marvin	1,683	1,683	1,036
Related companies			
Fit Run Limited	5	5	—
Ginger	114	114	103
Hop Hing Food Group Limited	3	3	—
Hop Hing Properties Limited	298	298	298
Konview Building (2008) Limited	43,190	89,550	—
Pinta Profits Limited	149	149	94
Service Store Company Limited	163	163	—
Whole Strength Group Limited	138	138	137
Dalian Hop Hing Pizza Company Limited	5,238	5,239	5,239
Panyu Hop Hing Oils & Fats Co., Ltd.	11,364	11,364	11,364
Beijing Hophing Chaobaihe Catering Management Limited	—	209	209
Others	47	98	98
	60,709		17,542

Company

	31 December 2009 *HK$'000*	**Maximum amount outstanding during the year** *HK$'000*	**1 January 2009** *HK$'000*
Related companies			
Hung's China Liaoning Limited	2	2	2
Konview Building (2008) Limited	32,960	32,960	—
Pinta Profits Limited	55	55	—
Others	12	12	—
	33,029		2

31 December 2010

Group

	31 December 2010 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2010 HK$'000
Director			
Mr. Hung Ming Kei, Marvin	—	1,683	1,683
Related companies			
Best Theme Limited	1,124	1,124	—
Fit Run Limited	1,347	1,347	5
Ginger	156	156	114
Hop Hing Food Group Limited	319	319	3
Hop Hing Properties Limited	298	298	298
Konview Building (2008) Limited	80	43,190	43,190
Pinta Profits Limited	151	151	149
Service Store Company Limited	163	163	163
Whole Strength Group Limited	143	143	138
Dalian Hop Hing Pizza Company Limited	5,523	5,523	5,238
北京合興餐飲管理有限公司 ("Beijing Hop Hing Catering Management Limited")	20,818	20,818	—
北京合興隆餐飲有限公司 ("Beijing Hophinglong Food Limited")	2,355	2,355	—
Panyu Hop Hing Oils & Fats Co., Ltd.	—	11,364	11,364
Beijing Hophing Chaobaihe Catering Management Limited	232	232	—
Others	199	279	47
	32,908		60,709

Company

	31 December 2010 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2010 HK$'000
Related companies			
Hung's China Liaoning Limited	2	2	2
Konview Building (2008) Limited	80	32,960	32,960
Pinta Profits Limited	55	55	55
Others	26	26	12
	163		33,029

30 June 2011

Group

	30 June 2011 *HK$'000*	**Maximum amount outstanding during the period** *HK$'000*	**1 January 2011** *HK$'000*
Best Theme Limited	1,124	1,124	1,124
Fit Run Limited	1,347	1,347	1,347
Ginger	156	156	156
Hop Hing Food Group Limited	269	319	319
Hop Hing Properties Limited	298	298	298
Konview Building (2008) Limited	80	80	80
Pinta Profits Limited	203	203	151
Service Store Company Limited	164	164	163
Whole Strength Group Limited	146	146	143
Dalian Hop Hing Pizza Company Limited	5,947	5,947	5,523
Beijing Hop Hing Catering Management Limited	25,197	25,197	20,818
Beijing Hophinglong Food Limited	—	2,355	2,355
北京吉合地餐飲有限公司 ("Beijing Jihedi Catering Limited")	1,698	1,698	—
Beijing Hophing Chaobaihe Catering Management Limited	270	270	232
Others	216	216	199
	37,115		32,908

Company

	30 June 2011 *HK$'000*	**Maximum amount outstanding during the period** *HK$'000*	**1 January 2011** *HK$'000*
Related companies			
Hung's China Liaoning Limited	2	2	2
Konview Building (2008) Limited	80	80	80
Pinta Profits Limited	107	107	55
Others	26	26	26
	215		163

Certain directors of the related companies are also directors of the Company.

Balances with the immediate holding company, a director and related companies are unsecured, interest-free and have no fixed terms of repayment, except for the receivable from Panyu Hop Hing Oils & Fats Co., Ltd. as at 31 December 2008 and 2009, which bore interest at rates of 7.2% and 5.3% per annum, respectively, and was repayable within one year.

21. CASH AND CASH EQUIVALENTS

Group

	31 December			30 June
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	75,240	84,546	158,379	148,195
Non-pledged time deposits with original maturity of more than three months when acquired	34,714	25,093	35,317	86,689
	109,954	109,639	193,696	234,884
Cash and cash equivalents are denominated in:				
HK$	1,596	2,239	4,613	1,084
RMB	103,647	95,178	184,224	233,113
United States Dollar ("US$")	4,711	12,222	4,859	687
	109,954	109,639	193,696	234,884

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group and earn interest at the respective short term time deposits rates. The bank balances are deposited with creditworthy banks with no recent history of default.

22. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	31 December			30 June
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 3 months	52,716	61,616	81,205	86,919
3 to 6 months	1,814	1,903	1,237	2,598
6 to 12 months	367	1,525	294	496
Over 12 months	194	343	403	254
	55,091	65,387	83,139	90,267

The accounts payable are non-interest-bearing and have average payment terms of one to three months.

23. OTHER PAYABLES AND ACCRUED CHARGES

	31 December			30 June
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	30,612	32,189	40,265	43,219
Accrued charges	46,768	56,595	71,949	82,651
	77,380	88,784	112,214	125,870

Other payables are non-interest-bearing and have average payment terms of one to three months.

24. INTEREST-BEARING BANK LOAN

	31 December			30 June
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current:				
Bank loan, unsecured	—	23,852	24,722	25,284

At 31 December 2009 and 2010 and 30 June 2011, the Group's bank loan with effective interest rates of 4.86%, 4.86% and 5.81% per annum, respectively, was denominated in RMB.

Based on the maturity terms of the interest-bearing bank loan, the amounts repayable in respect of the interest-bearing bank loan as at 31 December 2009 and 2010 and 30 June 2011 are payable within one year.

25. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the Relevant Periods are as follows:

	Withholding taxes
	HK$'000
At 1 January 2008	—
Deferred tax charged to the combined income statement during the year *(note 10)*	4,921
Exchange realignment	67
At 31 December 2008 and 1 January 2009	4,988
Deferred tax charged to the combined income statement during the year *(note 10)*	5,207
Withholding tax paid on repatriation of earnings from PRC subsidiaries	(1,182)
Exchange realignment	4
At 31 December 2009 and 1 January 2010	9,017
Deferred tax charged to the combined income statement during the year *(note 10)*	10,340
Withholding tax paid on repatriation of earnings from PRC subsidiaries	(1,539)
Exchange realignment	555
At 31 December 2010	18,373

	Withholding taxes *HK$'000*
At 1 January 2011	18,373
Deferred tax charged to the combined income statement during the period *(note 10)*	6,412
Exchange realignment	484
At 30 June 2011	25,269

Pursuant to the New PRC Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rates are 5% and 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

26. ISSUED SHARE CAPITAL

The Company was incorporated with limited liability in the BVI on 23 March 2000 under the International Business Act of the BVI. The authorised share capital of the Company was US$50,000 divided into 50,000 shares of US$1 each.

For the purpose of this report, issued share capital in the statements of financial position as at 31 December 2008, 2009 and 2010 and 30 June 2011 represented one issued and fully paid ordinary share of the Company of US$1.

27. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the combined statements of changes in equity.

(b) Company

	Issued share capital *HK$'000*	Retained profits/ (accumulated losses) *HK$'000*	Total *HK$'000*
At 1 January 2008	—	(39)	(39)
Loss for the year and total comprehensive loss for the year	—	(5)	(5)
At 31 December 2008 and 1 January 2009	—	(44)	(44)
Profit for the year and total comprehensive income for the year	—	32,956	32,956
At 31 December 2009 and 1 January 2010	—	32,912	32,912
Profit for the year and total comprehensive income for the year	—	55,915	55,915
2010 interim dividend *(note 11)*	—	(88,800)	(88,800)
At 31 December 2010 and 1 January 2011	—	27	27
Loss for the period and total comprehensive loss for the period	—	(5)	(5)
At 30 June 2011	—	22	22
At 1 January 2010	—	32,912	32,912
Profit for the period and total comprehensive income for the period (unaudited)	—	31,995	31,995
At 30 June 2010 (unaudited)	—	64,907	64,907

The loss of HK$5,000, profits of HK$32,956,000 and HK$55,915,000 and loss of HK$5,000 for the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011, respectively, included dividend income of nil, HK$32,960,000, HK$55,920,000 and nil, respectively, received from a subsidiary of the Company.

28. RELATED PARTY TRANSACTIONS

(i) In addition to the transactions detailed elsewhere in this report, the Group had the following material transactions with related parties during the Relevant Periods:

		Year ended 31 December			Six months ended 30 June	
		2008	**2009**	**2010**	**2010**	**2011**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Management fee to a related company	(a)	3,021	3,059	3,094	1,537	1,606
Interest income from a related company	20	584	686	625	301	—
Expenses charged by a related company	(b)	—	—	5,022	—	6,483
Purchases from a related company	(c)	575	149	137	57	69

Notes:

(a) Management fee to a related company of which certain directors were also Directors of the Company was based on mutually agreed terms.

(b) The expenses were charged on an actual incurred basis by a related company of which certain directors were also directors of the Company.

(c) The purchases of materials were made on normal commercial terms in the ordinary and usual course of business of the Group. A director of the Company is also a director of the related company.

(ii) Compensation of key management personnel of the Group, including Directors' remuneration as disclosed in note 8 to the Financial Information, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	**2009**	**2010**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Short-term employee benefits	3,452	4,621	6,146	2,120	3,188
Post-employment benefits	86	134	171	106	99
	3,538	4,755	6,317	2,226	3,287

29. DISPOSAL OF SUBSIDIARIES

On 18 June 2010, the Group disposed of its equity interest in Advance Move International Limited and its subsidiaries, Canary Glory Limited and its subsidiaries, Onknight Holdings Limited and its subsidiary, Hop Hing Fast Food Franchise Holdings Limited and Yoshinoya Franchise Holdings Limited to the immediate holding company at an aggregate consideration of HK$7,800,000. The management considered that such disposal was a distribution of the subsidiaries to the immediate holding company as the principal activities of the subsidiaries were not related to the principal activities of the Group. Thus, the difference between the consideration and the net liabilities of the subsidiaries being disposed of, net of the non-controlling interests and release of exchange fluctuation reserve was credited as a shareholder's contribution under capital reserve.

	HK$'000
Net assets/(liabilities) disposed of:	
Property, plant and equipment *(note 14)*	2,143
Stocks	1,017
Accounts receivable	9
Prepayments, deposits and other receivables	192
Due from related companies	13,618
Cash and bank balances	9,540
Accounts payable	(303)
Due to related companies	(28,139)
Other payables and accrued charges	(369)
Tax payable	(1,038)
Non-controlling interests	56
	(3,274)
Release of exchange fluctuation reserve upon disposal	457
Shareholder's contribution under capital reserve	10,617
	7,800
Satisfied by:	
Amount due from the immediate holding company	7,800

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	HK$'000
Cash and bank balances disposed of and net cash outflow in respect of the disposal of subsidiaries	(9,540)

30. OPERATING LEASE COMMITMENTS

The Group leases certain of its shops, office premises and warehouses under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to twenty years.

As at 31 December 2008, 2009 and 2010 and 30 June 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December			30 June
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	90,842	123,459	152,009	161,311
In the second to fifth years, inclusive	274,062	401,287	471,018	497,850
Beyond five years	216,436	404,252	435,655	455,903
	581,340	928,998	1,058,682	1,115,064

In addition, the operating lease rentals for certain shops are based on the higher of a fixed rental and contingent rent based on sales of these shops pursuant to the terms and conditions as set out in the respective rental agreements. As the future sales of these shops could not be accurately determined, the relevant contingent rent has not been included above and only the minimum lease commitments have been included in the above table.

The Company did not have any significant commitments at the end of each of the Relevant Periods.

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Financial assets

Group

	31 December			30 June
	2008	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss				
Securities at fair value through profit or loss	—	1,233	1,512	1,547
	—	1,233	1,512	1,547
Loans and receivables				
Accounts receivable	2,827	3,042	3,329	4,358
Financial assets included in prepayments, deposits and other receivables	22,026	26,154	32,210	34,133
Due from the immediate holding company	—	—	7,800	7,800
Due from a director	1,036	1,683	—	—
Due from related companies	17,542	60,709	32,908	37,115
Cash and cash equivalents	109,954	109,639	193,696	234,884
	153,385	201,227	269,943	318,290
	153,385	202,460	271,455	319,837

Company

	31 December			30 June
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Loans and receivables				
Due from the immediate holding company	—	—	7,800	7,800
Due from subsidiaries	14,748	14,900	15,285	15,302
Due from related companies	2	33,029	163	215
	14,750	47,929	23,248	23,317

Financial liabilities

Group

	31 December			30 June
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities at amortised cost				
Accounts payable	55,091	65,387	83,139	90,267
Other payables and accrued charges	77,380	88,784	112,214	125,870
Due to related companies	58,285	34,375	81,069	72,371
Interest-bearing bank loan	—	23,852	24,722	25,284
	190,756	212,398	301,144	313,792

Company

	31 December			30 June
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities at amortised cost				
Due to subsidiaries	2,625	2,625	2,625	2,625
Due to related companies	21,086	21,192	21,596	21,670
	23,711	23,817	24,221	24,295

32. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2009 and 2010 and 30 June 2011, the Group's securities at fair value through profit or loss are under Level 1.

During the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and interest-bearing bank loan. The Group has various other financial assets and liabilities such as accounts receivable, other receivables, accounts payable, other payables, accrued charges and balances with related parties.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, liquidity risk and equity price risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group's monetary assets, liabilities and transactions are principally denominated in Hong Kong dollars or Renminbi. Given that fluctuations between Renminbi and Hong Kong dollars are under the control of the PRC government, the foreign currency risk is considered not material and the Group therefore does not have a foreign currency hedging policy. However, the management monitors the Group's foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

Credit risk

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise accounts receivable, other receivables, deposits, amounts due from related parties and cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the financial liabilities of the Group and the Company as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, was less than one year.

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the values of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as securities at fair value through profit or loss as at 31 December 2009 and 2010 and 30 June 2011. The Group's investments are listed on the PRC stock exchanges and are valued at quoted market prices at the end of each of the Relevant Periods.

The following table demonstrates the sensitivity to every 10% change in the fair values of the securities listed in the PRC with all other variables held constant and before any impact on tax, based on their carrying amounts as at 31 December 2009 and 2010 and 30 June 2011.

	Change in sensitivity	**Carrying amount of securities**	**Increase/ (decrease) in profit before tax**
	%	*HK$'000*	*HK$'000*
31 December 2009			
Listed equity investments in the PRC			
— Securities at fair value	10	1,233	123
through profit or loss	(10)	1,233	(123)
31 December 2010			
Listed equity investments in the PRC			
— Securities at fair value	10	1,512	151
through profit or loss	(10)	1,512	(151)
30 June 2011			
Listed equity investments in the PRC			
— Securities at fair value	10	1,547	155
through profit or loss	(10)	1,547	(155)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholder's value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholder, return capital to the shareholder or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is expressed as a percentage of interest-bearing bank loan over equity attributable to the equity holder of the Company. The gearing ratios as at the end of each of the Relevant Periods were as follows:

Group

	31 December			**30 June**
	2008	**2009**	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest-bearing bank loan	—	23,852	24,722	25,284
Equity attributable to the equity holder of the Company	81,394	149,231	164,280	220,768
Gearing ratio	—	16.0%	15.0%	11.5%

34. EVENTS AFTER THE REPORTING PERIOD

(i) Save as disclosed in the section headed "History and Organisation of the Target Group" in the Circular, on 28 December 2011, the companies now comprising the Group completed the Reorganisation in preparation for the acquisition of the entire issued share capital of the Company by Hop Hing Group Holdings Limited.

(ii) On 30 November 2011 and 20 December 2011, interim dividends of HK$144,500,000 and HK$72,100,000 were declared by the board of directors of the Company and one of the Company's subsidiaries, Hop Hing Investment (Liaoning) Company Limited, respectively, to their shareholders.

35. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group in respect of any period subsequent to 30 June 2011.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

INTRODUCTION

The following is an illustrative and unaudited pro forma financial information of the Enlarged Group ("Unaudited Pro Forma Financial Information"), including the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group, which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Proposed Acquisition, as if it had taken place on 30 June 2011 for the unaudited pro forma consolidated statement of financial position and on 1 January 2010 for the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated statement of cash flows.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position, results of operations and cash flows of the Group had the Proposed Acquisition been completed as at 30 June 2011 or 1 January 2010, where applicable, or at any future dates.

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

A. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	The Group as at 30 June 2011	Target Group as at 30 June 2011	Pro forma adjustments			Pro forma Enlarged Group
			Other pro forma adjustments			
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
	Note 1a	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
NON-CURRENT ASSETS						
Property, plant and equipment	212,002	176,619				388,621
Prepaid land lease payments	26,973	—				26,973
Trademarks	124,278	—				124,278
Investments in subsidiaries	—	—	3,430,611		(3,430,611)	—
Rental deposits	—	27,034				27,034
Deferred tax assets	989	—				989
Total non-current assets	364,242	203,653				567,895
CURRENT ASSETS						
Stocks	151,571	104,192				255,763
Accounts receivable	83,643	4,358				88,001
Securities at fair value through profit or loss	—	1,547				1,547
Prepayments, deposits and other receivables	31,352	36,089				67,441
Non-current assets held for disposal	10,706	—				10,706
Due from the immediate holding company	—	7,800			(7,800)	—
Due from related companies	—	37,115	44,389		(48,642)	32,862
Tax recoverable	1,400	—				1,400
Pledged bank deposits	49,576	—				49,576
Cash and cash equivalents	99,571	234,884				334,455
Total current assets	427,819	425,985				841,751
CURRENT LIABILITIES						
Accounts payable	37,971	90,267				128,238
Bills payable	38,253	—				38,253
Other payables and accrued charges	54,320	125,870		15,000		195,190
Due to related companies	—	72,371			(56,442)	15,929
Interest-bearing bank loans	166,831	25,284				192,115
Tax payable	1,598	6,429				8,027
Total current liabilities	298,973	320,221				577,752
NET CURRENT ASSETS	128,846	105,764				263,999
TOTAL ASSETS LESS CURRENT LIABILITIES	493,088	309,417				831,894
NON-CURRENT LIABILITIES						
Deferred tax liabilities	1,890	25,269				27,159
NET ASSETS	491,198	284,148				804,735
EQUITY						
Equity attributable to equity holders of the Company						
Issued share capital	51,155	—				51,155
Reserves	435,113	220,768	3,475,000	(15,000)	(3,367,231)	748,650
	486,268	220,768				799,805
Non-controlling interests	4,930	63,380			(63,380)	4,930
Total equity	491,198	284,148				804,735

B. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT

	The Group for the year ended 31 December 2010	Target Group for the year ended 31 December 2010	Pro forma adjustments: Other pro forma adjustments		Pro forma Enlarged Group
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
	Note 1b	*Note 2*	*Note 4*	*Note 6*	
TURNOVER	769,147	1,234,212			2,003,359
Direct cost of stocks sold and services provided	(558,277)	(470,611)			(1,028,888)
Other income and gains, net	1,707	3,328		(625)	4,410
Other production and service costs	(53,961)	—			(53,961)
Selling and distribution costs	(98,927)	(502,178)			(601,105)
General and administrative expenses	(41,120)	(88,819)			(129,939)
Other expenses	—	—	(12,150)		(12,150)
PROFIT FROM OPERATING ACTIVITIES	18,569	175,932			181,726
Finance costs	(8,535)	(1,577)		625	(9,487)
PROFIT BEFORE TAX	10,034	174,355			172,239
Income tax expense	(3,500)	(53,917)			(57,417)
PROFIT FOR THE YEAR	6,534	120,438			114,822
ATTRIBUTABLE TO:					
Equity holders of the Company	7,179	98,613	(12,150)		93,642
Non-controlling interests	(645)	21,825			21,180
	6,534	120,438			114,822

C. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS

	The Group for the year ended 31 December 2010	Target Group for the year ended 31 December 2010	Pro forma adjustments		Pro forma Enlarged Group
			Other pro forma adjustments		
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
	Note 1b	*Note 2*	*Note 4*	*Note 6*	
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax	10,034	174,355	(12,150)		172,239
Adjustments for:					
Interest income	(629)	(2,055)		625	(2,059)
Interest expenses	8,535	1,577		(625)	9,487
Depreciation	17,694	62,601			80,295
Amortisation of prepaid land lease payments	687	—			687
Impairment of accounts receivable	31	—			31
Loss/(gain) on disposal of items of property, plant and equipment, net	(655)	1,175			520
Gain on disposal of securities at fair value through profit or loss	—	(423)			(423)
Equity-settled share option expenses	2,266	—			2,266
Legal and professional costs directly attributable to the issuance of Convertible Securities	—	—	(2,850)		(2,850)
	37,963	237,230			260,193
Increase in stocks	(25,087)	(1,892)			(26,979)
Increase in accounts receivable	(2,706)	(296)			(3,002)
Increase in prepayments, deposits and other receivables	(1,528)	(29,307)			(30,835)
Decrease in amounts due to associates	(1,381)	—			(1,381)
Decrease in an amount due from a director	—	1,683			1,683
Decrease in amounts due from related companies	—	2,819			2,819
Increase in accounts payable	20,832	18,055			38,887
Decrease in bills payable	(19,536)	—			(19,536)
Increase/(decrease) in other payables and accrued charges	(630)	23,799			23,169
Increase in amounts due to related companies	—	74,833			74,833
Cash generated from operations	7,927	326,924			319,851
Interest received	629	2,055		(625)	2,059
Hong Kong profits tax paid	(3,367)	(108)			(3,475)
Overseas tax paid	(209)	(47,837)			(48,046)
Net cash flows from operating activities	4,980	281,034			270,389

	The Group for the year ended 31 December 2010	Target Group for the year ended 31 December 2010	Pro forma adjustments		Pro forma Enlarged Group
			Other pro forma adjustments		
	(HK$'000)	(HK$'000)	(HK$'000)	(HK$'000)	(HK$'000)
	Note 1b	Note 2	Note 4	Note 6	
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of items of property, plant and equipment	(6,479)	(89,186)			(95,665)
Decrease in an amount due from a related company	—	11,364		(11,364)	—
Disposal of subsidiaries	—	(9,540)			(9,540)
Deregistration of a subsidiary	—	(265)			(265)
Proceeds from disposal of items of property, plants and equipment	753	—			753
Increase in securities at fair value through profit or loss	—	144			144
Increase in trademarks	(112)	—			(112)
Decrease/(increase) in time deposits with original maturity of more than three months when acquired	31,235	(10,224)			21,011
Net cash flows from/(used in) investing activities	25,397	(97,707)			(83,674)
CASH FLOWS FROM FINANCING ACTIVITIES					
Interest paid	(8,535)	(1,577)		625	(9,487)
Net drawing of bank and other loans	7,128	870		11,364	19,362
Increase in pledged bank deposits	(32,516)	—			(32,516)
Issue of shares, including share premium, net	118	—			118
Dividend paid to non-controlling interests	—	(13,919)			(13,919)
Loan from non-controlling interests	—	2,583			2,583
Dividend paid	—	(100,200)			(100,200)
Net cash flows used in financing activities	(33,805)	(112,243)			(134,059)

	The Group for the year ended 31 December 2010 (HK$'000) Note 1b	Target Group for the year ended 31 December 2010 (HK$'000) Note 2	Pro forma adjustments: Other pro forma adjustments (HK$'000) Note 4	(HK$'000) Note 6	Pro forma Enlarged Group (HK$'000)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(3,428)	71,084			52,656
Cash and cash equivalents at 1 January	71,364	84,546			155,910
Effect of foreign exchange rates changes, net	907	2,749			3,656
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	68,843	158,379			212,222
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and cash equivalents as stated in the consolidated statement of financial position	80,608	193,696			259,304
Less: Time deposits with original maturity of more than three months when acquired	(11,765)	(35,317)			(47,082)
Cash and cash equivalents as stated in the consolidated statement of cash flows	68,843	158,379			212,222

Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group:

1a. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2011 as set out in Appendix I to this circular.

1b. The amounts are derived from the audited consolidated income statement and audited consolidated statement of cash flows of the Group for the year ended 31 December 2010 as set out in Appendix I to this circular.

2. The amounts are derived from the accountants' report on the Target Group as set out in Appendix II to this circular.

3. The adjustment represents the total consideration of HK$3,475 million for the acquisition of the entire issued share capital of the Target Company and loans of approximately HK$44.389 million owed by the Target Group to Queen Board Limited and its associates, to be satisfied by the issuance of Convertible Securities, with 3.5% distribution rate and a conversion price of HK$0.37 per Share. According to Hong Kong Accounting Standards 32 "Financial Instruments: Presentation", the Convertible Securities do not meet the definition of financial liabilities and the entire amount upon issuance will be accounted for by crediting to reserves under equity. The investment cost in the Target Company of approximately HK$3,430.611 million is calculated by deduction of the loans of approximately HK$44.389 million from the value of Convertible Securities of approximately HK$3,475 million for the purpose of this Unaudited Pro Forma Financial Information.

   As the Convertible Securities will be accounted for as equity, the accounting treatment of the distribution to the holder of Convertible Securities will be the same as that of the dividend to the ordinary equity holders of the Company to be paid from the Company's distributable reserves. As the Company may at its sole discretion elect to defer the distribution pursuant to the terms of the Convertible Securities, no adjustment in relation to the distribution of the Convertible Securities has been made for the purpose of preparing this Unaudited Pro Forma Financial Information.

   This adjustment is not expected to have continuing effect on the Enlarged Group's unaudited pro forma consolidated income statement and unaudited pro forma consolidated statement of cash flows.

4. The adjustment represents the total estimated legal and professional costs of approximately HK$15 million payable by the Company of which approximately HK$2.85 million is directly attributable to the issuance of the Convertible Securities and is allocated as part of the Convertible Securities to be recognised as equity while the remaining balance of approximately HK$12.15 million is directly attributable to the Proposed Acquisition and is expensed in the unaudited pro forma consolidated income statement.

   This adjustment is not expected to have continuing effect on the Enlarged Group's unaudited pro forma consolidated income statement and unaudited pro forma consolidated statement of cash flows.

5. Upon Completion, the assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants. The adjustment represents consolidation entries for:

   (i) the elimination of loans of approximately HK$44.389 million owned by the Target Group to the Group upon Completion. The loans of approximately HK$44.389 million are owned by the Target Group to Queen Board Limited and its associates before Completion and are classified under amount due from the immediate holding company of approximately HK$7.800 million, amounts due from related companies of approximately HK$4.253 million and amounts due to related companies of approximately HK$56.442 million as at 30 June 2011. Accordingly, the elimination is made against the above balances as at 30 June 2011 for the purpose of presentation in the unaudited pro forma consolidation statement of financial position;

   (ii) the elimination of investment cost of approximately HK$3,430.611 million of the Company in the Target Company against its share capital of HK$8, and the excess amount of approximately HK$3,430.611 million is debited as merger reserve; and

   (iii) the adjustment of non-controlling interests of approximately HK$63.380 million to the reserves.

   The fair value of the Convertible Securities upon the completion date will be determined based on a valuation technique and in accordance with Hong Kong Accounting Standards 39 "Financial Instruments: Recognition and Measurement".

   Since the fair value of the Convertible Securities to be issued at the completion date may be substantially different from its value of HK$3,475 million used in preparing this Unaudited Pro Forma Financial Information, the amount of the consideration and, accordingly, the amount of investment cost in the Target Company and merger reserve at the completion date may be different from the amounts presented above in notes 3 and 5 and the difference may be significant.

6. The adjustment represents consolidation entries for the elimination of loan repayment and loan interest payment made by the Group to the Target Group during the year ended 31 December 2010.

7. Apart from the above, no adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 30 June 2011.

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

ERNST & YOUNG
安 永

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

30 December 2011

The Board of Directors
Hop Hing Group Holdings Limited

Dear Sirs,

We report on the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated statement of cash flows (the "Unaudited Pro Forma Financial Information") of Hop Hing Group Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which have been prepared by the directors of the Company (the "Directors") for illustrative purposes only, to provide information about how the acquisition of Summerfield Profits Limited and its subsidiaries (collectively referred to as the "SPL Group") might have affected the financial information presented, for inclusion in Appendix III to the circular of the Company dated 30 December 2011 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Appendix III to the Circular.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND REPORTING ACCOUNTANTS

It is the responsibility solely of the Directors to prepare 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" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form 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.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments, and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and, accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the bases stated, that such bases are consistent with the accounting policies of the Group and that 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.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 June 2011 or any future dates; or
- the results of operations and cash flows of the Group for the year ended 31 December 2010 or any future periods.

OPINION

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the bases stated;

(b) such bases are 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.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes the particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INFORMATION ON SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorized share capital of the Company is HK$80,000,000 divided into 800,000,000 ordinary shares of HK$0.10 each. 515,661,188 ordinary shares have been issued and fully paid up as at the Latest Practicable Date.

According to the share option scheme adopted by ordinary resolution of the sole shareholder passed on March 12, 2008 with effective date of April 25, 2008, a total number of 27,450,960 new ordinary shares of the Company may be issued pursuant to the exercise of all outstanding and vested share options under the share option scheme as at the Latest Practicable Date.

Assuming the exercise in full of the rights attaching to the Warrants, a total number of 97,402,895 new ordinary shares of the Company may be issued as at the Latest Practicable Date.

Under the Acquisition Agreement, Convertible Securities will be issued to the Seller (or to its appointed nominees(s)).

3. DIRECTORS' INTEREST IN SECURITIES

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

Interests in Ordinary Shares of the Company

Name of Director	Number of shares held, capacity and nature of interest: Directly and beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Total	Percentage of the Company's issued share capital *(Note 3)*
Hung Hak Hip, Peter	—	1,675,974	9,723,917,311 *(Note 1)*	2,808,903 *(Note 2)*	9,728,402,188	1,887%
Wong Yu Hong, Philip	2,045,565	—	—	—	2,045,565	0.4%
Sze Tsai To, Robert	2,045,565	—	—	—	2,045,565	0.4%
Cheung Wing Yui, Edward	2,523,165	—	—	—	2,523,165	0.5%
Seto Gin Chung, John	417,373	—	—	—	417,373	0.1%
Shek Lai Him, Abraham	—	—	—	—	—	—
Hung Chiu Yee	2,614,772	—	—	—	2,614,772	0.5%
Lee Pak Wing	2,376,052	—	—	—	2,376,052	0.5%
Wong Kwok Ying	—	—	—	—	—	—
Lam Fung Ming, Tammy	—	—	—	—	—	—

Note:

1. Mr. Hung Hak Hip, Peter is the sole director and beneficial owner of Hungs Family (2009) which beneficially own 327,034,536 Shares. He is also deemed to be interested in 4,990,883 Shares held through a controlled corporation. 9,391,891,892 Shares (the "**Relevant Shares**") represent the maximum number of Shares which will be issued and allotted upon the full conversion of the Convertible Securities to the Seller, Queen Board Limited (a company indirectly wholly-owned by Mr. Hung Hak Hip, Peter) pursuant to the Acquisition Agreement as at the Latest Practicable Date. Mr. Hung Hak Hip, Peter is the sole shareholder of Queen Board Limited (through Ever Intellect Limited), therefore is deemed to be interested in the Relevant Shares as at the Latest Practicable Date.

2. 2,808,903 Shares were beneficially owned by a discretionary trust whose discretionary beneficiaries include certain associates of Mr. Hung Hak Hip, Peter.

3. The percentage shareholding is calculated based on the number of issued shares of the Company as at the Latest Practicable Date.

Interests in Warrants of the Company

	Number of warrants held, capacity and nature of interest				
Name of Director	Directly and beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Total
Hung Hak Hip, Peter	—	335,194	66,405,082*	561,780**	67,302,056
Wong Yu Hong, Philip	409,113	—	—	—	409,113
Sze Tsai To, Robert	409,113	—	—	—	409,113
Cheung Wing Yui, Edward	504,633	—	—	—	504,633
Seto Gin Chung, John	83,474	—	—	—	83,474
Shek Lai Him, Abraham	—	—	—	—	—
Hung Chiu Yee	522,954	—	—	—	522,954
Lee Pak Wing	475,210	—	—	—	475,210
Wong Kwok Ying	—	—	—	—	—
Lam Fung Ming, Tammy	—	—	—	—	—

Note:

* Mr. Hung Hak Hip, Peter is the sole director and beneficial owner of Hungs Family (2009) which beneficially owned 65,406,906 Warrants in aggregate. He is also deemed to be interested in 998,176 Warrants held through a controlled corporation.

** 561,780 Warrants were beneficially owned by a discretionary trust whose discretionary beneficiaries include certain associates of Mr. Hung Hak Hip, Peter.

Save as disclosed above and the share options granted to the Directors as disclosed under the heading "Share Option Scheme" in this circular, as at the Latest Practicable Date, none of the Directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

4. SHARE OPTION SCHEME

The following share options were granted under the share option scheme adopted by ordinary resolution of the sole Shareholder passed on 12 March 2008 with effective date of 25 April 2008, details of which are set out below:

Name or category of participant	Date of grant *(Note 2)*	Exercise period	Share options granted	Exercise price *(Note 3)* *HK$ per share*	At date of grant *(Note 4)* *HK$ per share*	Outstanding at 30 June 2011	Share options exercised	Outstanding at the latest Practicable Date
Directors								
Hung Hak Hip, Peter	27 April 2009	27 April 2010 to 26 April 2019	4,928,000	0.35	0.35	4,928,000	0	4,928,000
Wong Yu Hong, Philip	27 April 2009	27 April 2010 to 26 April 2019	2,464,000	0.35	0.35	2,464,000	0	2,464,000
Sze Tsai To, Robert	27 April 2009	27 April 2010 to 26 April 2019	2,464,000	0.35	0.35	2,464,000	0	2,464,000
Cheung Wing Yui, Edward	27 April 2009	27 April 2010 to 26 April 2019	2,464,000	0.35	0.35	2,464,000	0	2,464,000
Seto Gin Chung, John	27 April 2009	27 April 2010 to 26 April 2019	2,464,000	0.35	0.35	2,464,000	0	2,464,000
Shek Lai Him, Abraham	27 April 2009	27 April 2010 to 26 April 2019	2,464,000	0.35	0.35	2,464,000	0	2,464,000
Hung Chiu Yee	27 April 2009	27 April 2010 to 26 April 2019	2,464,000	0.35	0.35	2,464,000	0	2,464,000
Lee Pak Wing	27 April 2009	27 April 2010 to 26 April 2019	2,464,000	0.35	0.35	2,464,000	0	2,464,000
Wong Kwok Ying	27 April 2009	Commencement subject to *(Note 1)* below and up to 26 April 2019	4,928,000	0.35	0.35	4,928,000	0	4,928,000
Lam Fung Ming, Tammy	27 April 2009	Commencement subject to *(Note 1)* below and up to 26 April 2019	2,464,000	0.35	0.35	2,464,000	0	2,464,000
Sub-total			**29,568,000**			**29,568,000**	**0**	**29,568,000**
Employees	27 April 2009	Commencement subject to *(Note 1)* below and up to 26 April 2019	4,500,000	0.35	0.35	4,000,000	0	4,000,000
Total			**34,068,000**			**33,568,000**	**0**	**33,568,000**

Notes:

(1) Subject to certain performance targets being met by the participants, the participants may, at any time as may be prescribed by the Board at its discretion, be notified (the "**Date of Notification**") of the vesting of the share options and the number of shares comprised in vested share options. Thereafter, the participants shall have the right to exercise the vested share options within the exercise period from the respective Date of Notification and up to 26 April 2019 in accordance with the terms of their grant.

(2) Subject to note (1) above, the share options are subject to vesting periods which run from the date of grant to the commencement of the exercise period.

(3) The exercise price of the share options is subject to adjustments.

(4) The price of the Shares disclosed is the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the day specified.

5. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the interest of substantial shareholders/other persons in the Shares and underlying Shares of the Company, as notified to the Company and recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Interests in Ordinary Shares of the Company

Name of holder	*Notes*	**Number of ordinary Shares held**	**Percentage of the Company's issued share capital**
Hung's (1985) Limited ("**Hung's**")	(i)	140,563,299	27.3%
Hop Hing Oil (1985) Limited ("**HHO**")	(ii)	186,471,237	36.2%
Hungs Family (2009)	(iii)	327,034,536	63.4%
Hung Hak Hip, Peter	(iv)	9,728,402,188	1,886.6%
Queen Board Limited	(v)	9,391,891,892	1,821.3%
Ever Intellect Limited	(vi)	9,784,333,334	1,897.4%

Notes:

(i) Hung's is the registered holder of the Shares disclosed above.

(ii) HHO is the registered holder of the Shares disclosed above.

(iii) Hungs Family (2009), as the trustee of two family discretionary trusts, is the registered holder of units of certain unit trusts, of which Hung's and HHO are trustees. By virtue of the SFO, Hungs Family (2009) is deemed to be interested in the shares held by Hung's and HHO mentioned in notes (i) and (ii) respectively.

(iv) As disclosed in the section under "Directors' Interest in Securities", by virtue of the SFO, Mr. Hung Hak Hip, Peter is deemed to be interested in:

(a) the disclosed interest of Hungs Family (2009) of 327,034,536 Shares mentioned in note (iii) as Mr. Hung Hak Hip, Peter is the sole director and beneficial owner of Hungs Family (2009);

(b) 4,990,883 Shares held through a controlled corporation;

(c) 1,675,974 Shares held through Mr. Hung Hak Hip, Peter's spouse and minor children; and

(d) 2,808,903 Shares beneficially owned by a discretionary trust whose discretionary beneficiaries include certain associates of Mr. Hung Hak Hip, Peter.

(e) 9,391,891,892 Shares (the "**Relevant Shares**") represent the maximum number of Shares which will be issued and allotted upon the full conversion of the Convertible Securities to be issued to the Seller, Queen Board Limited (a company indirectly wholly-owned by Mr. Hung Hak Hip, Peter) pursuant to the Acquisition Agreement as at the Latest Practicable Date. Mr. Hung Hak Hip, Peter is the sole shareholder of Queen Board Limited (through Ever Intellect Limited), therefore is interested in the Relevant Shares as at the Latest Practicable Date.

(v) 9,391,891,892 Shares represent the maximum number of Shares which will be issued and allotted upon the full conversion of the Convertible Securities to be issued to Queen Board Limited pursuant to the Acquisition Agreement as at the Latest Practicable Date.

(vi) Ever Intellect Limited holds the entire issued share capital of Queen Board Limited. Mr. Hung Hak Hip, Peter is the sole shareholder of Ever Intellect Limited.

Interests in Warrants of the Company

Name of holder	*Notes*	**Number of warrants held**
Hung's	(i)	28,112,659
HHO	(ii)	37,294,247
Hungs Family (2009)	(iii)	65,406,906
Hung Hak Hip, Peter	(iv)	67,302,056

Notes:

(i) Hung's is the registered holder of the warrants disclosed above.

(ii) HHO is the registered holder of the warrants disclosed above.

(iii) Hungs Family (2009), as the trustee of two family discretionary trusts, is the registered holder of units of certain unit trusts, of which Hung's and HHO are trustees. By virtue of the SFO, Hungs Family (2009) is deemed to be interested in the warrants held by Hung's and HHO mentioned in notes (i) and (ii) respectively.

(iv) As disclosed in the section under "Directors' Interest in Securities", by virtue of the SFO, Mr. Hung Hak Hip, Peter is deemed to be interested in:

(a) the disclosed interest of Hungs Family (2009) of 65,406,906 warrants mentioned in note (iii) as Mr. Hung Hak Hip, Peter is the sole director and beneficial owner of Hungs Family (2009);

(b) 998,176 warrants held through a controlled corporation;

(c) 335,194 warrants held through Mr. Hung Hak Hip, Peter's spouse or minor children; and

(d) 561,780 warrants beneficially owned by a discretionary trust whose discretionary beneficiaries include certain associates of Mr. Hung Hak Hip, Peter.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified of any persons other than the Directors of the Company whose interests are set out in the sections "Directors' Interest in Securities" and "Share Option Scheme" above, who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register and kept by the Company pursuant to Section 336 of the SFO.

6. DIRECTORS' SERVICE CONTRACTS

None of the directors was a party to any service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors or their respective associates (within the meaning defined in the Listing Rules) had any interest in any business which might compete with the business of the Group.

8. INTERESTS IN ASSETS AND CONTRACTS OF THE ENLARGED GROUP

As at the Latest Practicable Date, other than the transactions disclosed below, none of the Directors had a significant interest, either directly or indirectly, in any contract of significance to the business of the Enlarged Group to which any member of the Enlarged Group was a party:

Tenancy Agreements

On September 21, 2009, Hop Hing Oil Factory Limited ("**HHOF**"), an indirect wholly-owned subsidiary of the Company, entered into two tenancy agreements (the "**Tenancy Agreements**"), as the tenant, with Wytak Limited ("**Wytak**"), as the landlord, for renting certain premises from Wytak in the period from August 1, 2009 to July 31, 2012.

The aggregate rent paid under the Tenancy Agreement by the Group for the year ended December 31, 2010 was approximately HK$4.1 million.

Sales Agreement

Panyu Hop Hing Oils & Fats Co. Ltd. ("**Panyu Hop Hing**") and Shenzhen You Rong Retail Co. Ltd. ("**Shenzhen You Rong**") entered into a sales agreement on November 24, 2010 for sale of various edible oil products manufactured by the Group to Shenzhen You Rong for three financial years ending December 31, 2013. The transactions under such sales agreement constitute continuing connected transactions of the Company under the Listing Rules. The maximum aggregate annual value of the sales by Panyu Hop Hing to Shenzhen You Rong for each of the three financial years ending December 31, 2013 is estimated not to exceed RMB7,200,000 (equivalent to approximately HK$8,675,000).

As at the Latest Practicable Date, Mr. Hung Hak Hip, Peter, being a non-executive director of the Company, was the sole director and beneficial owner of Hungs Family 2009 which beneficially owned approximately 63% of the issued share capital of the Company. The trustee is deemed to be a substantial shareholder of the Company by virtue of the SFO. Mr. Hung Hak Hip, Peter was also deemed to be interested in approximately 1,887% of the issued share capital of the Company. 9,391,891,892 Shares (the "**Relevant Shares**") represent the maximum number of Shares which will be issued and allotted upon the full conversion of the Convertible Securities to the Seller, Queen Board Limited (a company indirectly wholly-owned by Mr. Hung Hak Hip, Peter) pursuant to the Acquisition Agreement as at the Latest Practicable Date. Mr. Hung Hak Hip, Peter is the sole shareholder of Queen Board Limited (through Ever Intellect Limited), therefore is deemed to be interested in the Relevant Shares as at the Latest Practicable Date.

Wytak and Shenzhen You Rong were associates of Mr. Hung Hak Hip, Peter and constituted connected persons of the Company under the Listing Rules for the respective reason as set out below:

(i) The voting power at general meetings of Wytak was indirectly controlled by the trustee of a discretionary trust. Such trustee was wholly-owned by Mr. Hung Hak Hip, Peter and his spouse; and

(ii) The voting power at general meetings of Shenzhen You Rong was indirectly controlled by the trustee of a discretionary trust. The sole shareholder of such trustee was a brother of Mr. Hung Hak Hip, Peter.

Contract for Technology Transfer and Trademark License

(i) Contract for Technology Transfer and Trademark License for "Yoshinoya" dated June 30, 1999 entered into between Hop Hing Fast Food Limited as sub-licensor and Beijing Hop Hing Long Fast Food Development Co., Ltd., the predecessor of BJ Yoshinoya Fast Food as sub-licensee in relation to the sub-license of the use of the "Yoshinoya" trademarks in the operation of the Franchise Stores in Beijing, Tianjin and Hebei;

(ii) Contract for Technology Transfer and Trademark License for "Dairy Queen" dated March 5, 2009 entered into between Hop Hing Franchise Limited as sub-licensor and BJ Yoshinoya Fast Food as sub-licensee in relation to the sub-license of the use of the "Dairy Queen" trademarks in the operation of the Franchise Stores in Beijing, Tianjin and Hebei;

(iii) Contract for Technology Transfer and Trademark License for "Yoshinoya" dated January 7, 2005 entered into between Hop Hing Fast Food Limited as sub-licensor and Liaoning Hop Hing as sub-licensee in relation to the sub-license of the use of the "Yoshinoya" trademarks in the operation of the Franchise Stores in Shenyang;

(iv) Contract for Technology Transfer and Trademark License for "Dairy Queen" dated March 5, 2009 entered into between Hop Hing Franchise Limited as sub-licensor and Liaoning Hop Hing as sub-licensee in relation to the sub-license of the use of the "Dairy Queen" trademarks in the operation of the Franchise Stores in Shenyang;

(v) Contract for Technology Transfer and Trademark License for "Yoshinoya" dated May 1, 2000 entered into between Hop Hing Fast Food Limited as sub-licensor and Dalian Hexing Fast Food as sub-licensee in relation to the sub-license of the use of the "Yoshinoya" trademarks in the operation of the Franchise Stores in Dalian;

(vi) Contract for Technology Transfer and Trademark License for "Dairy Queen" dated March 5, 2009 entered into between Hop Hing Franchise Limited as sub-licensor and Dalian Hexing Fast Food as sub-licensee in relation to the sub-license of the use of the "Dairy Queen" trademarks in the operation of the Franchise Stores in Dalian;

(vii) Contract for Technology Transfer and Trademark License for "Yoshinoya" dated September 22, 2008 entered into between Hop Hing Fast Food China North Investment Co., Ltd. as sub-licensor and HuHeHaoTe Hop Hing as sub-licensee in relation to the sub-license of the use of the "Yoshinoya" trademarks in the operation of the Franchise Stores in the City of Hobhot, Inner Mongolia Autonomous Region;

(viii) Contract for Technology Transfer and Trademark License for "Dairy Queen" dated March 5, 2009 entered into between Hop Hing Franchise Limited as sub-licensor and HuHeHaoTe Hop Hing as sub-licensee in relation to the sub-license of the use of the "Dairy Queen" trademarks in the operation of the Franchise Stores in the Inner Mongolia Autonomous Region;

(ix) Contract for Technology Transfer and Trademark License for "Yoshinoya" dated September 8, 2011 entered into between Champ Base Investments Limited as sub-licensor and Harbin Hop Hing as sub-licensee in relation to the sub-license of the use of the "Yoshinoya" trademarks in the operation of the Franchise Stores in Heilongjiang and Jilin;

(x) the Agreement dated December 1, 2011 entered into among Hung's Management Services Limited, as licensor, and Hop Hing Franchise Limited, Hop Hing Fast Food Limited, Champ Base Investments Limited, Hop Hing Fast Food China North Investment Co. Ltd. Hawick Limited, Excel Leader Group Limited and Bravo Gain Holdings Limited, as licensees, in relation to the grant of the non-exclusive right to use and sub-license the right to use the knowhow, confidential information, copyrighted materials, trademarks, patents, inventions and other related information for the purpose of running the Franchise Business in the Franchise Regions for an annual royalty of HK$1,000 from each licensee; and

(xi) the Management Services Contract dated November 9, 2011 entered into between BJ Yoshinoya Fast Food and Fitaccord Developments Limited for the management of the Franchise Stores in Beijing, in which BJ Yoshinoya Fast Food agreed to pay an one-off management fee of RMB2,696,000 to Fitaccord Developments Limited, such Management Services Contract will become expired on December 31, 2011.

As at the Latest Practicable Date, save as disclosed above, none of the Directors or experts named in the section headed "11. Experts and consents" in this appendix had any direct or indirect interest in the assets which had been, since December 31, 2010, the date to which the latest published audited consolidated financial statements of the

Company have been made up, acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

9. MATERIAL CONTRACTS

Set out below are the material contracts (not being contracts entered into in the ordinary course of business) entered or to be entered into by any member of the Enlarged Group (including any company which will become a subsidiary of the Company by reason of an acquisition or has been agreed or proposed since December 31, 2010, being the date to which the audited consolidated financial statements of the Company have been made up) within the two years immediately preceding the Latest Practicable Date:

(i) the sales agreement dated November 24, 2010 entered into between Panyu Hop Hing, an indirect wholly-owned subsidiary of the Company, and Shenzhen You Rong, a connected person, in relation to the sale of various edible oil products manufactured by the Group to Shenzhen You Rong for the three financial years ending December 31, 2013. The transactions under such sales agreement constitute continuing connected transactions of the Company under the Listing Rules. The maximum aggregate annual value of the sales by Panyu Hop Hing to Shenzhen You Rong for each of the three financial years ending December 31, 2013 is estimated not to exceed RMB7,200,000 (equivalent to approximately HK$8,675,000); and

(ii) the Acquisition Agreement for a total consideration of HK$3,475 million.

10. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

11. EXPERTS AND CONSENTS

The following sets out the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
Ernst & Young	Certified public accountants
Jun He Law Offices	Licensed legal advisors on PRC law

Guangdong Securities	A licensed corporation to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Euromonitor	Industry analyst

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report (as the case may be) and references to its name, in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the above experts was beneficially interested in the share capital of any member of the Group, nor did any one of them have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition or which has been agreed or proposed since December 31, 2010, being the date to which the audited consolidated financial statements of the Company have been made up).

12. WORKING CAPITAL

The Directors are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Enlarged Group's present internal resources and available banking facilities, the Enlarged Group has sufficient working capital for its present requirement for at least the next twelve months from the date of this circular.

13. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since December 31, 2010, being the date to which the latest published audited consolidated financial statements of the Company were made up.

14. MISCELLANEOUS

(a) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, situated at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(b) The secretary of the Company is Wong Kwok Ying a certified public accountant (practising) in Hong Kong and a fellow member of the Hong Kong Institute of Certified Public Accountants.

(c) The English text of this circular shall prevail the Chinese text.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company, at Units E&F, 2nd Floor, Hop Hing Building, 9 Ping Tong Street East, Tong Yan San Tsuen, Yuen Long, New Territories, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this circular:

(a) the articles of association of the Company;

(b) the Tenancy Agreements;

(c) the Sales Agreement;

(d) the contracts referred to in the paragraph headed "Material Contracts" in Appendix IV of this circular;

(e) the letter of recommendation from the Independent Board Committee dated December 30, 2011, the text of which is set out on page 156 of this circular;

(f) the letter of advice issued by Guangdong Securities dated December 30, 2011, the text of which is set out on pages 157 to 182 of this circular;

(g) the written consent given by Guangdong Securities as referred to in the paragraph headed "Experts and Consents" in Appendix IV of this circular;

(h) the audited financial statements of the Group for the years ended December 31, 2008, 2009 and 2010 and the unaudited financial information of the Group for the six months ended June 30, 2011, an extract of which is set out in Appendix I of this circular;

(i) the accountants' report on the Target Group from Ernst & Young, the text of which is set out in Appendix II of this circular;

(j) the report on the unaudited pro forma financial information of the Enlarged Group dated December 30, 2011 from Ernst & Young, the text of which is set out in Appendix III of this circular; and

(k) this circular and a copy of each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A which has been issued by the Company since its latest published audited accounts.

HOP HING GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 47)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Hop Hing Group Holdings Limited (the "**Company**") will be held at Tianshan and Lushan Rooms, Level 5, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Admiralty, Hong Kong on Tuesday, January 17, 2012, at 11:00 a.m. (or any adjournment thereof) for the following purposes:

ORDINARY RESOLUTIONS

1. "**THAT**:

(a) the conditional Acquisition Agreement (the "**Acquisition Agreement**") dated December 1, 2011 entered into between the Company and Queen Board Limited (the "**Seller**") in relation to the proposed acquisition (the "**Proposed Acquisition**") of the entire issued share capital (the "**Sale Shares**") of Summerfield Profits Limited (the "**Target**") and the loan in the amount of approximately HK$44 million owed by the Target to the Seller and its associates at a total consideration of HK$3,475 million (the "**Consideration**") and the perpetual subordinated convertible securities (the "**Convertible Securities**") to be issued by the Company as the entire consideration for the Proposed Acquisition in accordance with the terms and conditions of the Acquisition Agreement, a copy of the Acquisition Agreement has been produced to the EGM marked "A" and signed by the chairman of the EGM for the purpose of identification, and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) the issuance by the Company of the Convertible Securities to the Seller or its nominee(s) on Completion of the Proposed Acquisition to satisfy the Consideration, and the allotment and issuance of 9,391,891,892 new ordinary shares (the "**Conversion Shares**") of HK$0.10 each in the share capital of the Company (the "**Shares**", and each, a "**Share**") upon conversion of the Convertible Securities by the holder(s) of the Convertible Securities in accordance with the terms and conditions of the Convertible Securities (the "**Terms and Conditions of the Convertible Securities**") at an initial conversion price of HK$0.37 per Share be and are hereby approved;

(c) the increase in the authorized share capital of the Company from HK$80,000,000 to HK$1,480,000,000, by the creation of additional 14,000,000,000 unissued Shares of HK$0.10 each be and is hereby approved; and

(d) any one of the directors of the Company (the "**Directors**") be and is hereby authorized to sign, execute, perfect, deliver, negotiate, agree and do all such documents, deeds, acts, matters and things, as he may in his opinion or discretion consider reasonable, necessary, desirable or expedient to implement and/or give effect to the Acquisition Agreement, the Convertible Securities pursuant to and in accordance with the Terms and Conditions of the Convertible Securities, and all the transactions contemplated thereunder with any changes as such Director may consider reasonable, necessary, desirable or expedient.

Yours faithfully,
By Order of the Board
Hop Hing Group Holdings Limited
Wong Kwok Ying
Company Secretary

Hong Kong, December 30, 2011

Head Office and Principal Place of Business:
Units E&F
2nd Floor
Hop Hing Building
9 Ping Tong Street East
Tong Yan San Tsuen
Yuen Long
New Territories
Hong Kong

Registered Office:
Clifton House
75 Fort Street
P.O. Box 1350 GT
Grand Cayman
KY1-1108
Cayman Islands

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company.

2. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, situated at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for the holding of the EGM or any adjournment thereof.

3. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s), and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

4. The transfer books and register of members of the Company will be closed from Saturday, January 14, 2012 to Tuesday, January 17, 2012, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for attending the EGM, all transfers of Shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, situated at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on January 13, 2012 for registration.

5. Completion and return of the form of proxy shall not preclude members from attending and voting in person at the EGM (or any adjournment thereof) and in such events, the form of proxy shall be deemed to be revoked.

6. As at the date of this notice, the executive directors of the Company are Mr. Wong Kwok Ying and Ms. Lam Fung Ming, Tammy. The non-executive directors of the Company are Mr. Hung Hak Hip, Peter, Ms. Hung Chiu Yee and Mr. Lee Pak Wing. The independent non-executive directors of the Company are Dr. Hon. Wong Yu Hong, Philip, *GBS*, Mr. Sze Tsai To, Robert, Mr. Cheung Wing Yui, Edward, Mr. Seto Gin Chung, John and Hon. Shek Lai Him, Abraham, *SBS, JP*.