
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Tongfang Kontafarma Holdings Limited**, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker, other licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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



同方康泰產業集團有限公司
Tongfang Kontafarma Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1312)

**MAJOR TRANSACTION RELATING TO ACQUISITION OF
COMPANIES ENGAGING IN FITNESS BUSINESSES**

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	8
APPENDIX I – FINANCIAL INFORMATION OF THE GROUP	I-1
APPENDIX II – FINANCIAL INFORMATION OF THE TARGET GROUP	II-1
APPENDIX III – UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION OF THE ENLARGED GROUP	III-1
APPENDIX IV – MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP	IV-1
APPENDIX V – GENERAL INFORMATION	V-1

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings when used herein:

“2017 Accounts”	the audited consolidated financial statements of the True Cayman Group for the financial year ending 31 December 2017 prepared in accordance with the IFRS
“2018 Accounts”	the audited consolidated financial statements of the True Cayman Group for the financial year ending 31 December 2018 prepared in accordance with the IFRS
“2019 Accounts”	the audited consolidated financial statements of the True Cayman Group for the financial year ending 31 December 2019 prepared in accordance with the IFRS
“Acquisition”	the acquisition of the Sale Shareholdings by the Purchaser from the respective Vendors pursuant to the Sale and Purchase Agreements
“Active Gains”	Active Gains Universal Limited, a company incorporated in BVI with limited liability, being the vendor under the True Cayman SPA
“Active Yield”	Active Yield Investment Limited, a company incorporated in BVI with limited liability, being the vendor under the True Yoga Cayman SPA
“America”	United States of America
“Announcement”	the announcement of the Company dated 6 May 2017 in relation to, among other things, the Sale and Purchase Agreements and the transactions contemplated thereunder
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audited Net Income”	the audited consolidated net profit after tax attributable to the True Cayman Group as shown in the Relevant Accounts
“Australia”	Commonwealth of Australia

DEFINITIONS

“Board”	the board of the Directors
“Business Day”	any day on which the Stock Exchange is open for the business of dealing in securities
“BVI”	the British Virgin Islands
“China Health”	China Health Management Investment Limited, a company incorporated under the laws of BVI with limited liability, and the controlling Shareholder directly holding 3,164,252,000 Shares, representing approximately 63.92% of the total issued Shares, as at the Latest Practicable Date
“Company”	Tongfang Kontafarma Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Stock Exchange (Stock Code: 1312)
“Completion”	completion of the sale and purchase of the Sale Shareholdings and performance by the parties of their respective obligations pursuant to the terms of the Sale and Purchase Agreements
“Completion Date”	29 May 2017, being the date on which the Completion took place
“connected person(s)”	has the meaning as ascribed thereto under the Listing Rules
“Consideration”	the aggregate consideration for the Acquisition under the Sale and Purchase Agreements, being US\$36,720,000
“Director(s)”	the director(s) of the Company
“EBITDA”	the audited consolidated profit of the True Cayman Group before interests, tax, depreciation and amortization as shown in the 2017 Accounts
“Enlarged Group”	the Group as enlarged by the Acquisition

DEFINITIONS

“Fester Global” or “Purchaser”	Fester Global Limited, a company incorporated in BVI with limited liability and a direct wholly owned subsidiary of the Company, being the purchaser under the Sale and Purchase Agreements
“Franchise Agreement”	the franchise agreement dated 29 May 2017 entered into between the Franchisor and True Concept in relation to the Franchise Business in Taiwan
“Franchise Business”	the business of operating and managing each channel of distribution located within Taiwan offering merchandise and services for sale by reference to the system and using the proprietary marks in Taiwan in accordance with the Franchise Agreement
“Franchisor” or “Singapore SPV”	True Fitness Holdings (Singapore) Pte. Ltd., a special purpose vehicle incorporated in Singapore with limited liability, which was indirectly wholly owned by True Cayman as at the Latest Practicable Date, being the franchisor under the Franchise Agreement
“Gross Turnover”	the gross receivables derived from all merchandise and services sold or rendered by the Franchise Business during the specified period, whether for cash or credit and regardless of collection in the case of credit, and income of every kind and nature related to the Franchise Business including any loss of profits insurance claim; provided, however, that Gross Turnover shall not include any value added taxes or other taxes collected from customers by the Franchisee for transmittal to the appropriate taxing authority. Specifically, gross receivables for services are to be accounted for, as and when the services are performed, on a straight-line time apportioned basis
“Group”	the Company together with its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“IFRS”	the International Financial Reporting Standards
“IHRSA”	International Health, Racquet & Sportsclub Association
“Independent Financial Adviser” or “Beijing Securities”	Beijing Securities Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company in relation to the term of the Franchise Agreement pursuant to the requirement under Rule 14A.52 of the Listing Rules
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are not connected persons of the Company and are third parties independent of the Company and its connected persons in accordance with the Listing Rules
“IPO”	an initial public offering of shares in the capital of the relevant company on the main board or growth enterprise market of the Stock Exchange
“Latest Practicable Date”	25 July 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	22 May 2017, or such other date as the parties may agree in writing
“Mr. PJW”	Mr. Patrick John Wee Ewe Seng, the founder of the Target Group
“PRC” or “China”	the People’s Republic of China
“Relevant Accounts”	means the 2017 Accounts, 2018 Accounts and/or the 2019 Accounts (as the case may be)
“Sale and Purchase Agreements”	collectively, the True Cayman SPA and the True Yoga Cayman SPA

DEFINITIONS

“Sale Shareholdings”	51% shareholding of True Cayman and 29% shareholding of True Yoga Cayman held by the respective Vendors as at the Completion Date
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SG\$”	Singapore dollar(s), the lawful currency of the Republic of Singapore
“Share(s)”	the ordinary share(s) of HK\$0.002 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Shareholders’ Agreements”	collectively, the True Cayman SHA and the True Yoga Cayman SHA
“Shenzhen Waranty”	深圳市華融泰資產管理有限公司 (Shenzhen Waranty Asset Management Co., Ltd.*), an intermediate holding company of the Company
“sq.ft”	square feet
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning as ascribed thereto under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Target Companies”	True Cayman and True Yoga Cayman
“Target Group”	the True Cayman Group and the True Yoga Cayman Group as at the Completion Date, and “member(s) of the Target Group” or “Target Group Company(ies)” shall be construed accordingly
“THB”	Thai Baht, the lawful currency of Thailand

DEFINITIONS

“Trade Sale”	(a) a sale, lease, transfer or other disposition of all or substantially all of the assets of True Cayman, (b) a sale, transfer or other disposition of a majority of the issued and outstanding share capital of True Cayman or a majority of the voting power of True Cayman; or (c) a merger, consolidation or other business combination of True Cayman with or into any other business entity in which the shareholders of True Cayman immediately after such merger, consolidation or business combination hold shares representing less than a majority of the voting power of the outstanding share capital of the surviving business entity
“True Cayman”	TFKT True Holdings, a company incorporated in the Cayman Islands with limited liability, which was owned as to 51% by the Purchaser and 49% by Active Gains as at the Latest Practicable Date
“True Cayman Group”	True Cayman and its subsidiaries (including principally True Fitness, True Yoga and True Yoga (Xiamen))
“True Cayman SHA”	the shareholders’ agreement dated 29 May 2017 entered into among the Purchaser, Active Gains and True Cayman to govern the shareholder relationship in the True Cayman Group
“True Cayman SPA”	the sale and purchase agreement dated 6 May 2017 entered into among the Company as guarantor, the Purchaser, Active Gains and Mr. PJW as warrantor in relation to, among other things, the acquisition of 51% shareholdings in True Cayman
“True Concept” or “Franchisee”	全真概念健康事業股份有限公司 (True Concept Ltd.*), a company incorporated in Taiwan with limited liability, which was wholly owned by True Yoga Cayman as at the Latest Practicable Date
“True Fitness”	True Fitness Pte. Ltd., a company incorporated in Singapore with limited liability, which was indirectly wholly owned by True Cayman as at the Latest Practicable Date

DEFINITIONS

“True Yoga”	True Yoga Pte. Ltd., a company incorporated in Singapore with limited liability, which was indirectly wholly owned by True Cayman as at the Latest Practicable Date
“True Yoga Cayman”	True Yoga Holdings Limited, a company incorporated in the Cayman Islands with limited liability, which was owned as to 29% by the Purchaser and 71% by Active Yield as at the Latest Practicable Date
“True Yoga Cayman Group”	True Yoga Cayman and its subsidiary (namely, True Concept)
“True Yoga Cayman SHA”	the shareholders’ agreement dated 29 May 2017 entered into among the Purchaser, Active Yield and True Yoga Cayman to govern the shareholder relationship in the True Yoga Cayman Group
“True Yoga Cayman SPA”	the sale and purchase agreement dated 6 May 2017 entered into among the Company as guarantor, the Purchaser, Active Yield and Mr. PJW as warrantor in relation to, among other things, the acquisition of 29% shareholdings in True Yoga Cayman
“True Yoga (Xiamen)”	群真(廈門)健身休閒有限公司 (True Yoga (Xiamen) Co., Ltd.*), a company incorporated in PRC with limited liability, which was indirectly wholly owned by True Cayman as at the Latest Practicable Date
“US\$”	US dollars, the lawful currency of the United States of America
“Vendors”	collectively, Active Gains and Active Yield
“%”	per cent.

* for identification only

LETTER FROM THE BOARD



同方康泰產業集團有限公司
Tongfang Kontafarma Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1312)

Executive Directors:

Mr. Huang Yu (*Chairman*)
Mr. Ng Qing Hai (*Managing Director*)
Mr. Zhang Yi

Independent non-executive Directors:

Mr. Chan Sze Chung
Mr. Zhang Ruibin
Mr. Zhang Junxi Jack

Registered office:

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

*Head office and principal
place of business:*

15th Floor
Allied Kajima Building
138 Gloucester Road
Wanchai
Hong Kong

28 July 2017

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION RELATING TO ACQUISITION OF
COMPANIES ENGAGING IN FITNESS BUSINESSES**

INTRODUCTION

Reference is made to the Announcement in relation to, among others, the Sale and Purchase Agreements and the Acquisition.

On 6 May 2017 (after trading hours), the Company as the guarantor and the Purchaser (an indirect wholly-owned subsidiary of the Company) entered into the Sale and Purchase Agreements with the respective Vendors and Mr. PJW as warrantor, pursuant to which the Purchaser has conditionally agreed to purchase, and the respective Vendors have conditionally agreed to sell 51% shareholding in True Cayman and 29% shareholding in True Yoga Cayman for the Consideration in an aggregate sum of US\$36,720,000.

LETTER FROM THE BOARD

The Completion took place on 29 May 2017, and the Franchise Agreement and the Shareholders' Agreements were entered into on the Completion Date.

The purpose of this circular is to provide you with, among other things, (i) the financial information of the Group; (ii) the financial information of the Target Group; (iii) the unaudited pro forma financial information and the indebtedness statement of the Enlarged Group; and (iv) other information as required under the Listing Rules.

SALE AND PURCHASE AGREEMENTS

	True Cayman SPA	True Yoga Cayman SPA
Date:	6 May 2017	6 May 2017
Parties:		
Purchaser:	Fester Global	Fester Global
Guarantor:	the Company	the Company
Vendor:	Active Gains, an investment holding company newly incorporated in BVI with limited liability, being ultimately controlled by Mr. PJW as at the Latest Practicable Date	Active Yield, an investment holding company newly incorporated in BVI with limited liability, being ultimately controlled by Mr. PJW as at the Latest Practicable Date
Warrantor:	Mr. PJW, the ultimate controlling shareholder of Active Gains and the founder of the Target Group and also a director of each of the Target Companies	Mr. PJW, the ultimate controlling shareholder of Active Yield and the Target Group and also a director of each of the Target Companies
Assets to be acquired:	51% of the entire issued share capital of True Cayman, which indirectly held the entire issued share capital of the principal operating companies, namely True Fitness and its subsidiary, True Yoga and True Yoga (Xiamen) as at the Latest Practicable Date	29% of True Yoga Cayman, which directly held the entire issued share capital of True Concept as at the Latest Practicable Date

LETTER FROM THE BOARD

On the Completion Date, the True Cayman Group, through Singapore SPV entered into the Franchise Agreement with True Concept pursuant to which Singapore SPV had agreed to grant and provide the True Yoga Cayman Group with non-exclusive rights to operate the Franchise Business in Taiwan for a term of 30 years and True Concept shall pay a monthly franchise fee pursuant to the Franchise Agreement. Please refer to the section headed “Franchise Agreement” in this circular for details.

On the Completion Date, the respective shareholders of True Cayman and True Yoga Cayman also entered into the Shareholders’ Agreements to govern their relationship as shareholders of True Cayman and True Yoga Cayman and the management and operation of the Target Group. Please refer to the section headed “Shareholders’ Agreements” in this circular for details.

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, the Vendors together with their respective ultimate beneficial owners and Mr. PJW are Independent Third Parties prior to Completion. After Completion and as at the Latest Practicable Date, the Vendors and Mr. PJW became connected persons of the Company at subsidiary level as they hold directly or indirectly more than 10% shareholdings in True Cayman, which was a non wholly-owned subsidiary of the Company. Save as disclosed, the Vendors (and their ultimate beneficial owners) were not connected and have no relationship (i.e. business or otherwise) with any directors, senior management or substantial shareholders of the Company and their respective associates.

Consideration and Payment Terms

The Consideration payable by the Purchaser to the Vendors for the Acquisition under the Sale and Purchase Agreements was US\$36,720,000 which shall be/had been satisfied in accordance with the following schedule:

- (i) US\$250,000 (the “**Deposit**”) had been paid and applied as part of the Consideration upon Completion;
- (ii) US\$32,970,000 had been paid in cash on Completion; and
- (iii) US\$3,500,000 shall be paid on or before the seventh Business Day from the date of availability of the 2017 Accounts (which shall be available on or before 31 March 2018).

LETTER FROM THE BOARD

The Consideration was determined after arm's length negotiations between the Purchaser and the Vendors and on normal commercial terms with references to (i) the unaudited net profit of the True Cayman Group and the True Yoga Cayman Group for the financial year 2016 adjusted by the Board (among others, adding back, (a) a one-off provision for the financial guarantee of approximately US\$2.9 million (please refer to page 45 of Appendix II); (b) the projected franchise fee income that would have been received by the True Cayman Group based on the financial performance of True Concept for the financial year 2016, assuming the Completion took place on 31 December 2015; and (c) a cut in and, to a lesser extent, reallocation among different regions of salary of the management team of the Target Group immediately subsequent to the Completion ("**Cost Reduction**"), assuming the Completion took place on 31 December 2015 ("**Adjusted Net Profit**")); (ii) the profit undertaking provided by Active Gains; (iii) the benefits of the Acquisition as set out in the section headed "Reasons and benefits for entering into Sale and Purchase Agreements" below; and (iv) the prospects and future plans of the Target Group. Therefore, the Board is of the view that the Consideration is fair and reasonable.

Taking into account that the assumption on future events better reflects the operation environments of the Target Group, the Company considers that the Adjusted Net Profit is a better indicator for the assessment of the future financial performance of the Target Group, and is fair and reasonable in determining the Consideration.

The Acquisition had been and will be funded by the internal resources of the Company.

Completion

Completion of both Sale and Purchase Agreements took place at the same time on 29 May 2017. Upon Completion, True Cayman became an indirect non-wholly owned subsidiary of the Company (owned as to approximately 51% shareholdings) and True Yoga Cayman became an associate of the Company (owned as to 29% shareholdings). The financial results and assets and liabilities of the True Cayman Group would be consolidated with, and accounted for as subsidiaries in, the Company's financial statements.

Save as to the subject matter of the relevant Sale and Purchase Agreements (51% shareholdings in True Cayman and 29% shareholdings in True Yoga Cayman) and the particulars of the Vendors, the terms and conditions of the Sale and Purchase Agreements are largely identical, except, *inter alia*, the followings:

Profits Undertakings

It is a term under the True Cayman SPA that each of Active Gains and Mr. PJW undertakes to the Purchaser that if the Audited Net Income as shown in the 2017 Accounts, the 2018 Accounts and the 2019 Accounts shall be less than US\$8,200,000, US\$10,900,000 and US\$13,800,000, respectively (subject to a 10% buffer of downward adjustment which will be triggered if the Audited Net Income is less than US\$7,380,000 in the 2017 Accounts, US\$9,810,000 in the 2018 Accounts and US\$12,420,000 in the 2019 Accounts), Active Gains shall pay to the Purchaser an amount equal to such shortfall (including the amount of net loss in the event the True Cayman Group is loss making) on a dollar-to-dollar basis multiplied by 100% in US dollar on or before the seventh Business Day from the date of availability of the Relevant Accounts which shall be ready on or before 31 March of each of the next three years.

LETTER FROM THE BOARD

The Audited Net Income for profit undertaking was determined after arm's length negotiations between the Purchaser, Active Gains and Mr. PJW with references to (i) the Adjusted Net Profit and (ii) the growth drivers of the Target Group, as shown in the prospects (elaborated in pages 41 and 42 of the letter from the Board) and the future plans (elaborated in page 23 of the letter from the Board).

The Audited Net Income shall be the net income as shown in the Relevant Accounts which shall not exclude any profits and losses arising from merger, acquisition and disposal or any extraordinary or exceptional items. For the avoidance of doubt, the financial performance on newly opened clubs not set out in the True Cayman SPA (clubs set out in the True Cayman SPA including clubs in HarbourFront Centre, Great World City, Chevron House, Tampines Junction, Ang Mo Kio, Suntec City and Viva Business Park in Singapore and club in North Lake in China) and club opening after the Completion Date shall not be taken into account for the said Audited Net Income. The Audited Net Income refers to the net income after tax in the audited consolidated financial statements of the True Cayman Group prepared in accordance with the IFRS.

Further, if any of the shortfall is caused by any additional tax liability (i.e. any withholding tax imposed on the franchise fee by the Taiwan tax authority) incurred by the True Cayman Group under the Franchise Agreement (except for the prevailing corporate tax rate in Singapore), Active Gains shall pay to the Purchaser an amount equal to such shortfall on a dollar-to-dollar basis in US dollar multiplied by the then shareholdings held by Active Gains accordingly.

The Company will publish an announcement and disclose in its next annual report whether or not the performance guarantee has been met, the performance of the True Cayman Group, and where the performance guarantee is not met, how the Company would enforce its rights against Active Gains and Mr. PJW under the True Cayman SPA.

Share Charges

Pursuant to the True Cayman SPA, Active Gains has also agreed to execute a share charge in favour of the Purchaser in respect of 10,000 shares in True Cayman (representing 20% of the entire issued share capital of True Cayman as at the date of the True Cayman SPA). In the event that Active Gains fails to compensate the Purchaser in respect of the shortfall in the guaranteed Audited Net Income, the Purchaser shall be entitled to sell or transfer the charged shares to cover such shortfall.

LETTER FROM THE BOARD

Pursuant to the True Yoga Cayman SPA, to secure the payment of the franchise fee payable by the True Yoga Cayman Group under the Franchise Agreement, Active Yield also agreed to execute, or procure the execution of, share charges in favour of True Cayman in respect of its 71% shareholdings in True Yoga Cayman and the 100% shareholdings in True Concept.

The abovementioned share charges had been delivered upon Completion.

The profit undertaking and the share charge arrangements were negotiated and determined after various arm's length negotiations between the parties. Originally, the Vendors and Mr. PJW were reluctant to provide any share charges as they have already provided the profit undertaking as well as personal guarantee from Mr. PJW as the warrantor directly to the Purchaser under the True Cayman SPA. The 20% readily represents the best available commercial terms negotiated by the Company.

Indeed, in the event that Active Gains fails to compensate the shortfall in the guaranteed Audited Net Income, the Company can forfeit the final instalment of the consideration of US\$3.5 million and enforce the 20% share charge, as well as claim directly against Active Gains and Mr. PJW personally.

Capital Injection

Pursuant to the True Cayman SPA, the Purchaser undertakes to inject capital in the sum of US\$5,000,000 into True Cayman for expansion by the True Cayman Group in the PRC. In the event that Active Gains fails to inject capital on a pro rata basis into True Cayman, the shareholdings held by the Purchaser in True Cayman will be increased to approximately 54% from 51%. As Active Gains did not inject further capital on a pro rata basis into True Cayman, the shareholdings held by the Purchaser in True Cayman had been further increased to approximately 54% as at the Latest Practicable Date.

The key reason for Mr. PJW to introduce the Company as a strategic investor into the Target Group was to leverage on the extensive resources and networks of the Group in China so as to aim for further expansion of the business of the Target Group in China. As such, it was a key term of the Acquisition, as requested by the Vendors, that a capital injection of US\$5,000,000 be provided for this specific purpose. It is also beneficial to provide the capital injection instead of directly acquiring the existing shares from Active Gains, as the money provided will be made available to the True Cayman Group, which are subsidiaries of the Company after Completion, and not be placed in the pockets of the Vendors.

LETTER FROM THE BOARD

Further Undertakings from Mr. PJW

Pursuant to the True Cayman SPA, Mr. PJW further undertakes to procure the closing down of his controlled fitness related business operations in Thailand and Malaysia by no later than 31 December 2017, failing which franchise fees shall be payable by such operating companies ultimately controlled by Mr. PJW in accordance with the terms of the Franchise Agreement. As at the Latest Practicable Date, Mr. PJW's controlled fitness related business operations in Thailand and Malaysia had been closed down.

SHAREHOLDERS' AGREEMENTS

The parties had also entered into the Shareholders' Agreements to govern their relationship as shareholders of True Cayman and True Yoga Cayman and the management and operation of the Target Group with details as follows:

TRUE CAYMAN SHA

- Date:** 29 May 2017
- Parties:**
- (i) Purchaser
 - (ii) Active Gains
 - (iii) True Cayman

Board and Management

The board of directors of True Cayman shall consist of a maximum of five directors, three of which shall be appointed by the Purchaser and two of which shall be appointed by Active Gains. The chairman of the board of directors and the chief executive officer of True Cayman shall be nominated by the Purchaser.

In addition, a four-member executive team will be formed which will be responsible for the day-to-day management of the True Cayman Group, of which three members shall be nominated by the Purchaser and one member shall be nominated by Active Gains.

To maintain the stability of the management of the True Cayman Group, Mr. PJW will continue to be the chief executive officer of True Cayman (as nominated by the Purchaser) for an initial period of three years from the Completion Date, provided that Mr. PJW shall not be guilty of any grave misconduct or wilful neglect in the discharge of his duties as the chief executive officer of True Cayman.

The Cost Reduction is mainly attributable to the reduction in salary of Mr. PJW which was agreed between the Company and Mr. PJW as part of the Acquisition. Given Mr. PJW will remain as the chief executive officer and substantial shareholder of True Cayman after Completion, the Company considers that Mr. PJW's interest in the Target Group is in line with that of the Company and the Cost Reduction will not affect the operation of the Target Group.

LETTER FROM THE BOARD

Voting

Except for certain matters (which includes, among others, change to the share capital, changes to the management policy (including investment and financial policy), change in remuneration of directors, change in board composition, the nature or scope of the business, voluntary dissolution or winding up of any company of the True Cayman Group) of the True Cayman Group which are subject to the unanimous approval of all the directors or shareholders (as the case may be), all resolutions of the directors and shareholders of the True Cayman Group shall be passed by a simple majority vote.

Dividend and distribution policy

True Cayman shall distribute to its shareholders not less than 25% of its net profits after tax lawfully available for distribution in each financial year subject to its board making reasonable provisions and transfers to reserves and repayment of loans/indebtedness and having regard to the strategic or growth plans and/or future needs of True Cayman and the True Cayman Group.

Pre-emption rights

Subject to Active Gains' put option as stated below, each shareholder will have a pre-emption right on the transfer of its shares in True Cayman.

Put option

Active Gains shall be entitled to sell to the Purchaser or its nominee and the Purchaser shall be obliged to purchase from Active Gains 4,500 shares in True Cayman (representing 9% of Active Gains' shareholdings in True Cayman as at the date of the True Cayman SPA) at US\$10,800,000 within 15 Business Days upon receipt of the Vendor's notice, provided that the Audited Net Income in the 2017 Accounts shall be not less than US\$8,200,000 (subject to a 10% buffer of downward adjustment which will be triggered if it is less than US\$7,380,000). The consideration for the put option was determined with reference to the expected EBITDA of US\$15 million for the year ending 31 December 2017 and an agreed EBIDTA multiple (8.0x) with reference to five listed companies which are engaged in fitness business in Asia including Central Sports Co Ltd (Stock Code: 4801 JP), Renaissance Inc (Stock Code: 2378 JP), Power Wind Health Industry (Stock Code: 8462 TT), Talwalkars Better Value Fit (Stock Code: TALW IN) and Tosho Co Ltd (Stock Code: 8920 JP).

Save for the put option above, as at the Latest Practicable Date, the Company had no intention to acquire the remaining equity interests of the Target Group.

As at the Latest Practicable Date, the Company planned to continue the operation of its existing business and had no intention, negotiation, agreement, arrangement and understanding (concluded or otherwise) about any disposal, scaling-down and/or termination of its existing businesses and/or major operating assets. However, it is the duty of the Directors to continue to monitor and review the operation of its existing business while exploring appropriate business opportunities to safeguard the best interest of the Company and the Shareholders.

LETTER FROM THE BOARD

Tag-along rights

On or after 1 April 2020, if any shareholder of True Cayman transfers all or part of its shares in True Cayman to a third party, the remaining shareholder(s) of True Cayman shall have the right to sell its shares on the same terms, and the number of shares that the remaining shareholder(s) shall sell on pro-rata to their respective shareholding in True Cayman.

Investment Strategy

It is the intention of the shareholders of True Cayman that the True Cayman Group should achieve an IPO or a Trade Sale by 31 March 2020.

Share option plan for key employees

It is agreed that a share option plan shall be adopted for key employees of True Cayman and True Cayman shall grant share options within 18 months from the Completion Date with an aggregate number of shares that may be issued pursuant to such share option plan shall be 5% of the total number of issued shares of True Cayman on the date of grant of such options.

The Company will issue further an announcement and a circular in relation to the proposed adoption of the share option plan and grant of share option(s) as and when appropriate in compliance with the Listing Rules requirement under Chapter 17 in relation to the said share option scheme.

TRUE YOGA CAYMAN SHA

- Date:** 29 May 2017
- Parties:**
- (i) Purchaser
 - (ii) Active Yield
 - (iii) True Yoga Cayman

Board and Management

The board of directors of True Yoga Cayman shall consist a maximum of three directors, two of which shall be appointed by Active Yield and one of which shall be appointed by the Purchaser. The chief executive officer of True Yoga Cayman shall be nominated by Active Yield.

In addition, a four-member executive team will be formed which will be responsible for the day-to-day management of the True Yoga Cayman Group, of which three members shall be nominated by Active Yield and one member shall be nominated by the Purchaser.

LETTER FROM THE BOARD

To maintain the stability of the management of the True Yoga Cayman Group, Mr. PJW will continue to be the chief executive officer of True Yoga Cayman (as nominated by Active Yield) for an initial period of three years from the Completion Date, provided that Mr. PJW shall not be guilty of any grave misconduct or wilful neglect in the discharge of his duties as the chief executive officer of True Yoga Cayman.

Voting

Except for certain matters (which includes, among others, change to the share capital, changes to the management policy (including investment and financial policy), change in remuneration of directors, change in board composition, the nature or scope of the business, and voluntary dissolution or winding up of any companies of the True Yoga Cayman Group), which are subject to the unanimous approval of all the directors or shareholders (as the case may be), all resolutions of the directors and shareholders of the True Yoga Cayman Group shall be passed by a simple majority vote.

Dividend and distribution policy

True Yoga Cayman shall distribute to its shareholders not less than 25% of its net profits after tax lawfully available for distribution in each financial year subject to the board making reasonable provisions and transfers to reserves and repayment of loans/indebtedness and having regard to the strategic or growth plans and/or future needs of True Yoga Cayman and the True Yoga Cayman Group.

Pre-emption rights

Each shareholder of True Yoga Cayman will have a pre-emption right on the transfer of its shares in True Yoga Cayman.

Tag-along rights

On or after 1 April 2020, if any shareholder of True Yoga Cayman transfers all or part of its shares in True Yoga Cayman to a third party, the remaining shareholder(s) of True Yoga Cayman shall have the right to sell its shares on the same terms, and the number of shares that the remaining shareholder(s) shall sell on pro-rata to their respective shareholding in True Yoga Cayman.

LETTER FROM THE BOARD

FRANCHISE AGREEMENT

The True Cayman Group had agreed to grant and provide the True Yoga Cayman Group with non-exclusive rights to operate the Franchise Business in Taiwan for a term of 30 years and True Concept shall pay a monthly franchise fee with details as set out below.

Date: 29 May 2017

Parties:

Franchisor: Singapore SPV, a company incorporated in Singapore with limited liability, which was indirectly wholly owned by True Cayman as at the Latest Practicable Date, an investment holding company.

Franchisee: True Concept, a company incorporated in Taiwan with limited liability, principally engaged in the operation of fitness centres in Taiwan and is wholly owned by True Yoga Cayman and ultimately controlled by Mr. PJW and indirectly owned as to 29% by the Purchaser as at the Latest Practicable Date.

Subject Matter: Singapore SPV shall grant to the True Yoga Cayman Group the non-transferable right and license to operate the Franchise Business at each specified premises in Taiwan under the proprietary rights owned by or available to the Franchisor in strict accordance with the system developed and implemented by the Franchisor.

Term: An initial term of 30 years commencing from the Completion Date, and the Franchise Agreement may be extended for additional terms of three years following the expiry of the initial term at the discretion of the Franchisor.

Fee: A royalty fee for the Franchise Business equivalent to 15% of the Gross Turnover of the immediately preceding month.

The royalty fee for the Franchise Business shall be adjusted to 17.5% if the Gross Turnover exceeds SG\$7,500,000 per month.

The Directors are of the view that the Franchise Business is the core business of the Target Group and consider that it is necessary for the term of the Franchise Agreement to be of such duration (which is more than three years), which is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Opinion from Beijing Securities

The Company has engaged Beijing Securities as the independent financial advisor to provide independent advice in respect of the Franchise Agreement pursuant to the requirement under Rule 14A.52 of the Listing Rules to explain why a period exceeding three years for the Franchise Agreement is required and to confirm that it is normal business practice for agreements of this type to be of such duration.

Beijing Securities has taken into account the following factors when formulating its independent opinion pursuant to Rule 14A.52 of the Listing Rules:

- (a) Pursuant to the Franchise Agreement, the Franchisor has granted the right to the Franchisee, on a royalty basis, the non-exclusive rights to operate the Franchise Business under the brand “True Fitness” and “True Yoga” at specified premises in Taiwan under the proprietary rights owned by or available to the Franchisor in strict accordance with the system developed and implemented by the Franchisor.
- (b) In order to ensure that the Franchisee is able to continue the operation of the fitness centres without disruption and to keep up with all the regular maintenance of the premises and equipment, it is practical and commercially sensible to enter into a franchise agreement for a duration of longer than three years. A short duration may give rise to uncertainties on the operation of the fitness centres by the Franchisee and as such, it is reasonable to expect a relatively long term for such franchise agreement.
- (c) It is also anticipated that the Franchisee shall incur significant investment costs in the purchase of equipment and to renovate the fitness centres in order to maintain its competitiveness in the market. Further, it is also expected that the Franchisee shall also be required to upkeep the conditions of the fitness centres and the equipment regularly. A longer view is required for these and therefore a longer duration under the Franchise Agreement will provide assurance to the Franchisee to invest in the upkeep of the fitness centres and the equipment which is conducive to attracting new members as well as building customers’ loyalty. In return, when a long range plan is in place, the Franchisee is able to devote more resources to the business and be able to generate stable revenue therefrom and as a result, to improve the business of the Franchisee as well as to contribute to the royalty fee payable to the Franchisor.
- (d) It is also beneficial to the Franchisor to enter into the Franchise Agreement with a longer duration as the Franchisee is familiar with the local market and the royalty fee generated will be able to bring a constant income stream to the Group.

LETTER FROM THE BOARD

- (e) Beijing Securities has also conducted research on other companies with similar franchise operations to the Franchise Business (“**Comparables**”). In the course of its review, it noted that in general the terms of the franchise agreement of the Comparables have a duration of longer than three years.

Having considered the principal factors set out above, Beijing Securities is of the view that it is a normal business practice for the Franchisor and the Franchisee to enter into the Franchise Agreement to be of such duration.

Basis of royalty fee percentage

The royalty fee percentage under the Franchise Agreement was arrived at arm’s length negotiation, taking into account the Franchisor’s target of fee maximization and the Franchisee’s target of maintaining reasonable return and sufficient cash for expansion after paying franchisee fee, and business prospects of True Concept.

The Company considers that the royalty fee will bring in stable income to the Enlarged Group on one hand and allow the Enlarged Group to share the growth of True Concept with the entitlement of higher royalty fee percentage in the event the Gross Turnover of True Concept exceeds higher benchmark on the other hand, and is fair and reasonable.

Proposed annual caps and basis

The annual caps for the three years ending 31 December 2019 for the Franchise Agreement are set out as follows:

For the year ending 31 December		
2017	2018	2019
<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
35.82	91.81	117.67

This is a new transaction, and there was no historical figure available for reference. In principle, the higher the annual caps, the more favourable to the Company and the Shareholders as a whole. The proposed annual caps were determined with reference to the following:

- (i) the historical gross turnover of True Concept for the year ended 31 December 2016;
- (ii) compound annual growth rate of True Concept’s Gross Turnover of approximately 28% between 2017 and 2019, based on the historical growth rate of True Concept’s Gross Turnover ranging from 21% to 42% between 2014 and 2016; and

LETTER FROM THE BOARD

(iii) royalty fee percentage under the Franchise Agreement.

In view of the above, the Board considers that the proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION OF THE TARGET GROUP

The Target Group is principally engaged in the operation of fitness and wellness groups comprising mainly fitness, yoga, spa and aesthetics groups in Singapore, Taiwan and PRC, under the brand “True Fitness” and “True Yoga”. As at the Latest Practicable Date, the Target Group was operating 26 fitness centres in Singapore, Taiwan and PRC with a total floor area of approximately 65,900 square meters and a total number of members of approximately 109,000. Details of the Target Group Companies are set out as follows:

True Cayman

True Cayman is an investment holding company incorporated in the Cayman Islands with limited liability on 13 April 2017. As at the Latest Practicable Date, it was owned as to 54% by the Purchaser and as to 46% by Active Gains and it indirectly wholly owned True Yoga (Xiamen), Singapore SPV, True Fitness, True Fitness (STC) Pte. Ltd. and True Yoga.

True Fitness

True Fitness is a company incorporated in Singapore with limited liability in August 1997. As at the Latest Practicable Date, it was indirectly wholly owned by True Cayman and it operated seven fitness centres in Singapore with a total floor area of approximately 13,900 square meters and a total number of members of approximately 32,500.

True Fitness (STC) Pte. Ltd.

True Fitness (STC) Pte. Ltd. is a company incorporated in Singapore with limited liability in May 2002. As at the Latest Practicable Date, it was directly wholly owned by True Fitness and it operated one fitness centre in Singapore with a total floor area of approximately 2,830 square meters and a total number of members of approximately 6,900.

True Yoga

True Yoga is a company incorporated in Singapore with limited liability in August 2004. As at the Latest Practicable Date, it was indirectly wholly owned by True Cayman and it operated two fitness centres in Singapore with a total floor area of approximately 1,600 square meters and a total number of members of approximately 6,700.

LETTER FROM THE BOARD

True Yoga (Xiamen)

True Yoga (Xiamen) is a company incorporated in the PRC with limited liability on 14 November 2011. As at the Latest Practicable Date, it was indirectly wholly owned by True Cayman and operated two fitness centres in Xiamen City, PRC with a total floor area of approximately 3,930 square meters and a total number of members of approximately 4,000.

True Yoga Cayman

True Yoga Cayman is an investment holding company incorporated in the Cayman Islands with limited liability in July 2014. As at the Latest Practicable Date, it was owned as to 29% by the Purchaser and as to 71% by Active Yield and it directly wholly owned True Concept.

True Concept

True Concept is a company incorporated in Taiwan with limited liability in August 2005. As at the Latest Practicable Date, it was directly wholly owned by True Yoga Cayman and operated 14 fitness centres in Taiwan with a total floor area of approximately 43,640 square meters and a total number of members of approximately 59,000.

Business model and scale of operations of the Target Group

The Target Group's current presence has readily provided large coverage and a scalable platform with 26 corporate owned clubs across key markets in Singapore, Taiwan and Xiamen. The Target Group's primary business segment and strategic focus is combining fitness and yoga studios, a format popular with members, and which gives the Target Group a unique combination of yoga and fitness under one roof with the added revenue stream from personal training (PT) services.

The Target Group's rigorous and disciplined strategy for selecting and operating clubs with the following factors considered ensures consistency in brand messaging and service quality:

1. *Accessibility and convenience* – commercial and residential locations provide greater accessibility to residential and working crowds. Such locations should also be close to public transport, and allow ample parking spaces.
2. *Size of premise* – premises sought shall be no less than 20,000 sq.ft. to accommodate the required facilities. The typical facilities include facilities for weight training and cardio floor, yoga area, spinning, aerobics, group fitness and personal training studios.
3. *Rental rate and tenure* – premises sought should allow for a longer term of tenure with fixed rental rates. The Target Group is in a position to negotiate lower rates as it is capable of bringing in human traffic and lock in for long term.

LETTER FROM THE BOARD

The Target Group has a unique and superior pre-sales process, utilizing guerilla marketing methods and setting up pop-up pre-sales centres in and around the new club locations to promote and sell membership plans prior to the actual club openings. The business model includes sticky, reliable, and high margin revenues based on three revenue streams of term memberships, dues memberships and personal training sales. The Target Group has created a competitive and compelling pricing strategy, which includes a prepaid term membership option and an ongoing, monthly dues membership option with an increased focus on dues memberships for new club openings. Higher margin personal training services support the Target Group's distinctive service level towards members and forms a significant revenue contribution.

Future plans

The Target Group is exploring various new locations in Singapore, Taiwan and China on an on-going basis to serve its members better and enlarge its catchment area.

In Taiwan, the Target Group will possibly be taking over a smaller chain of fitness gymnasiums in the near foreseeable future for further expansion in Taiwan.

In China, with the support of the Group, it aims to open 24 or more new, corporately-owned and franchised clubs in strategic, high-growth, second tier markets such as Chengdu, Chongqing and Shenzhen within 24 months. The Target Group will strengthen its brand in China so as to strategically establish one flagship location in each of these new markets first, while aiming to maintain its well-established presence in Xiamen.

Management of the Target Group

Despite that the Directors or senior management of the Company do not have any specific management experience in fitness and wellness business, the Target Group has the following experienced fitness and wellness management team members, which can help continue to develop and manage the business.

Mr. PJW – Founder and Chief Executive Officer

Mr. Patrick John Wee Ewe Seng, is the Chief Executive Officer (“CEO”) and founder of the Target Group. He made his first foray into the fitness industry and became a partner in the California Fitness business, helping to set up the Singapore operations at Orchard Road and at Raffles City, later moving to Hong Kong to oversee California Fitness’ expansion to other Asian markets, namely Taiwan, Korea and Thailand. In 2002, he left California Fitness and started the chain, Hollywood Fitness, in Taiwan, opening two fitness centres in just over a year. In 2003, he acquired the South Korean and Thai units of California Fitness with partner, Eric Levine, subsequently listing the Thai operations on the Thai Stock Exchange. In the same year, he founded Planet Yoga in conjunction with Master Kamal, operating in a 10,000 sq.ft. premises in the heart of Central, Hong Kong.

LETTER FROM THE BOARD

For Singapore

Ms. Reina Lim, the Chief Operating Officer (“COO”) of the True Cayman Group, commenced her career in auditing and moved towards transaction advisory services, specialising in due diligence for Mergers and Acquisition (“M&A”) transactions. Ms. Lim has extensive experience in transaction advisory services and has assisted listed companies and numerous international companies and has provided specialised transaction support in M&A in Hong Kong, PRC, Singapore and other Asia Pacific regions. In her nine years’ experience as a public accountant, Ms. Lim has served Arthur Andersen Singapore, Deloitte Singapore and Deloitte Hong Kong. In June 2007, Ms. Lim joined Boardroom Limited as Country Head and executive director of their Hong Kong subsidiary, leading strategic directions and business development for the Hong Kong operations, and leading Boardroom Limited’s acquisition of a company in China, expanding Boardroom Limited’s footprint into China. Ms. Lim is a Chartered Accountant with the Institute of Chartered Accountants of Australia, a CPA with the Hong Kong Certified Public Accountants, a Member of the Singapore Institute of Directors, and has also acted as Company Secretary for four companies listed on the Main Board of the Stock Exchange.

Mr. Alvin Chen, is the Chief Finance Officer (“CFO”) of the Target Group with responsibilities for the Target Group’s finance activities including accounting, audit, financial planning, taxes, treasury, human resources, administration and information technology. He has over 20 years of experience in senior management positions in finance with various organisations in the consumer goods and services industry. His professional experience includes his prior role as the CFO of Global Beauty Group, one of the largest salon chains in Asia, and as the Chief Financial Officer of Luxasia Group, a leading distributor of luxury cosmetics products within Asia. He has also held senior financial roles in Oni Group, Nakamichi Corporation, Cooper Gay and Pricewaterhouse Coopers. Mr. Chen is a Chartered Accountant and holds an Master of Business Administrations from Manchester Business School.

Mr. Ganeson Bupendra, the Senior Vice President of Sales and Marketing, is responsible for sales and marketing activities across all regions where the Target Group has a presence. He has 20 years of sales experience, having commenced his career in sales in the resort and lifestyle industry in 1995 before embarking on a career in the fitness industry in 1998. First starting as a membership consultant, Mr. Bupendra rose through the ranks to become General Manager, Country Manager, and subsequently Vice President for sales and marketing at the True Cayman Group, overseeing the regional business.

Ms. Eileen Lim, the Financial Controller of the True Cayman Group, joined the Target Group in January 2015. Reporting to the CFO of the Target Group, she heads the Regional Finance department for activities relating to accounting, audit, taxation, and regional reporting. Ms. Lim has 20 years’ experience with companies of international repute, with 15 such years in the capacity of a Finance Manager/Controller. Ms. Lim holds a Bachelor of Accountancy degree and is a member of the Institute of Singapore Chartered Accountants.

LETTER FROM THE BOARD

Ms. Vivien Ho, the Regional Marketing Vice President of the True Cayman Group, and is responsible for setting up marketing departments across various regions and overseeing the regional marketing and promotion teams in Singapore, Malaysia, Thailand and Taiwan. With a 10 years background as a Communications Manager with Richemont Luxury Group, Ms. Ho spearheaded marketing and public relations initiatives for luxury brands, including Piaget, Baume & Mercier, and Officine Panerai for the Singapore, Malaysia and Indonesia markets. Prior to joining the True Cayman Group, Ms. Ho was the Group Accounting Manager of Singapore Press Holdings, handling sales portfolios for major dailies.

Mr. Nicholas Stanley Kraal, the Regional Operations Manager, is responsible for daily operations activities of the True Cayman Group. Mr. Kraal heads the Singapore Operations Team which is responsible for the improvement and enhancement of efficiency and quality standards within the clubs' operations. Mr. Kraal has 12 years of experience in organisational operations and reports directly to the Group CEO.

Mr. Andrew Lan, the Country Sales Manager of the True Cayman Group, joined the True Cayman Group in August 2008, and is responsible for the sales activities of the True Cayman Group. Mr. Lan first entered the fitness industry at Planet Fitness in 2001 and has since gathered 16 years of sales experience. Mr. Lan is responsible for the development of business, handling of corporate and other accounts and for the increase of profitability for the Company, and reports directly to the Group Senior Vice President. Mr. Lan also provides coaching, mentoring and training to General Managers to further facilitate the achievement of profitable sales.

For Taiwan

Mr. Jeffrey Shih, the Senior Vice President, Taiwan and China, possesses a strong legal background. Jeffrey Shih is a partner for the Taiwan business and undertakes the responsibility as a Home Office Director. Jeffrey passed the bar examination and from 1992, practiced in business law and anti-trust law for 14 years and is also a partner of an international business law firm in Taiwan. He started his career in the fitness industry in 1999 where he joined California Fitness as their legal consultant before being promoted to Assistant Vice President of Development. He was later further promoted to Country Finance and Administration Director for Taiwan. To broaden his experience, Jeffrey left California Fitness in 2002 for a position based in China. He worked with Club Management Service (“CMS”) and was the Chief Operation Officer for Asia.

Ms. Lillian Wang, the CFO of True Concept, possesses over 25 years' working experience in the financial and accounting field in multinational companies, including fast moving consumer goods and in the medical industry. Ms. Wang possesses strong experience on Initial Public Offerings (“IPO”), accounting payment control, credit control, closing, internal audit, cash flow management and tax reporting. She has been with True Concept for almost three years. Ms. Wang holds a master degree in management and a master degree in accounting

LETTER FROM THE BOARD

Mr. Michael David Abrahamsen (Duke), the Country Manager 台灣區業務部總經理, has been in the fitness industry for over 26 years and came to Asia as part of the first group of people who opened Ray Wilson California fitness. Based initially in Hong Kong, then in Singapore, Taiwan, Thailand and Korea, Duke has held the position of Country Manager. In that capacity he oversaw mainly the sales and marketing side of the business. After leaving California Fitness, he moved to Hollywood Fitness and co-founded Celebrity Fitness before rejoining Mr. PJW in the Target Group. Since arriving in Taiwan in 2007 as Country Manager he has overseen the expansion from two clubs to the present 14.

Ms. Sally Tang, the Office (Human Resources and Administration) Manager, gained several years of work experience in international trade companies before joining a law firm as a legal secretary, a role which she held for four years. In 1999, when California Fitness set up its first club in Taiwan, she assumed the role of Human Resources and Administration Supervisor until August 2005. She was one of the first and longest-standing employees of True Concept. With over 18 years of work experience in the fitness industry, she is well versed in all related operations, Human Resources, employment of foreign employees, and with Taiwan government administration issues.

Relevant laws and regulations in relation to the operation of fitness and wellness centers

There are no specific laws governing the operation of fitness and wellness centers in Singapore and China.

In Taiwan, a trust fund is required to be set up by company operating fitness and wellness centers with term membership collection arrangements pursuant to the Consumer Protection Law with effect from 13 September 2009. The monthly net amount to be paid or withdrawn (or released) from the said trust fund account is regulated and should be computed as net amounts payable to, or withdrawable from, the trust fund account consisting of three components, being amounts payable by new members collected during the month, less amounts recognised (or earned) from existing active members, less amount recognised from special case (refund members).

As at the Latest Practicable Date, save that the Target Group had obtained a Bizsafe certificate issued by the Workplace Safety and Health Council in Singapore and a building inspection certificate issued by City of Taipei Public Safety in Taiwan for all the clubs in Taiwan, the operation of the fitness and wellness centres by the Target Group did not require any specific licences or permits.

LETTER FROM THE BOARD

The Target Group's fitness centres are all operated in leased premises and a summary of the major lease terms for all the fitness centres are as follows:

Singapore

LEGAL ENTITY	CLUB DETAILS				RENT DETAILS				OPTION TO RENEW		
	NAME OF CLUB	ADDRESS OF CLUB	FROM	TO	CLUB SIZE (sqft)	RENT (SGD)	SERVICE CHG (SGD)	PROMO FEE (SGD)		TOTAL (SGD)	
True Yoga Pte Ltd	Pacific Plaza	9 Scouts Road, #04-01/05-01/01A, Pacific Plaza, Singapore 228210	15-Dec-15	14-Dec-16	17,319	121,233	25,979	-	147,212	Option to renew for 3 years on terms and conditions to be mutually agreed.	
			15-Dec-16	14-Dec-17		123,831	25,979	-	149,809		
			15-Dec-17	14-Dec-18		126,429	25,979	-	152,407		
True Fitness Pte Ltd	HarbourFront Centre	1 Maritime Square, #03-23/24/25/26/27/28, HarbourFront Centre, Singapore 099253	11-Jun-16	10-Jun-17	20,634	103,168	33,009	8,262	144,438	Option to renew for a further term of 3 years at a revised rent to be mutually agreed.	
			11-Jun-17	10-Jun-18		108,324	33,009	8,262	149,595		
True Fitness Pte Ltd	Great World City (PART 1/2) Unit 13	1 Kim Seng Promenade, #03-13/14 Great World City, Singapore 237994	1-Mar-14	28-Feb-19	910	9,191	1,092	182	10,465	Option to renew for 3 years based on prevailing market rent not more than 20% of existing rent.	
			1-Mar-14	28-Feb-19		78,200	20,400	3,400	102,000	Option to renew for 3 years based on prevailing market rent not more than 20% of existing rent.	
Great World City Total			1-Mar-14	28-Feb-19	17,910	87,391	21,492	3,582	112,465		
True Fitness Pte Ltd	Chevron House	30 Raffles Place #06-00, #07-00, #08-00, Chevron House, Singapore 048662	1-Jan-17	15-Mar-17	25,285	-	-	-	-	6.5 months rent & service charge free	
			16-Mar-17	31-Dec-17		182,049	25,285	-	207,334	Year 1: 2.5 months	
			1-Jan-18	28-Feb-18		-	-	-	-	-	Year 2: 2 months
			1-Mar-18	31-Dec-18		182,049	25,285	-	-	207,334	Year 3: 2 months
			1-Jan-19	28-Feb-19		-	-	-	The effective rental rate is \$7.09 psf.		
			1-Mar-19	31-Dec-20		182,049	25,285	-	207,334	Option to renew for 3 years.	

LETTER FROM THE BOARD

LEGAL ENTITY	NAME OF CLUB	ADDRESS OF CLUB	FROM	TO	CLUB SIZE (sqf)	RENT (SGD)	RENT DETAILS			TOTAL (SGD)	OPTION TO RENEW
							SERVICE CHG (SGD)	PROMO FEE (SGD)			
True Fitness Pte Ltd	Tampines Junction	300 Tampines Avenue 5, #08-01/02/03/04, NTUC Income Tampines Junction, Singapore 529653	15-Jan-17	14-Jul-18	24,854	91,959	29,825	-	-	121,784	Option to renew for last term of 3 years each based on the prevailing market rent.
			15-Jul-18	14-Jan-20		94,445	29,825	-	-	124,269	
True Fitness Pte Ltd	Ang Mo Kio (Djitsun Mall)	5 Ang Mo Kio Central 2, #01-05 & #04-01, Djitsun Mall, Singapore 569663	17-May-13	16-Sep-13	15,726	-	-	-	-	-	Option to renew for 5 years at the prevailing market rent to be mutually agreed.
			5-Aug-13	4-Aug-18		94,356	1,430	-	-	95,786	
True Fitness (STC) Pte Ltd	Suntec City	3 Temasek Boulevard, #03-318/319/320/322/ 323, Suntec City Mall, Singapore 038983	28-Sep-16	27-Sep-17	30,441	130,895	42,617	12,176	-	185,688	N/A
			28-Sep-17	27-Sep-18		133,939	42,617	12,176	-	188,732	
			28-Sep-18	27-Sep-19		136,983	42,617	12,176	-	191,776	
True Fitness Pte Ltd	Viva Business Park	750B Chai Chee Road, #02-01, Viva Business Park, Singapore 469002	15-Dec-16	14-Apr-17	18,575	-	-	-	-	-	Option to renew for 5 years at the prevailing market rent and service charge.
			15-Apr-17	14-Mar-18		72,426	20,449	-	-	92,874	
			15-Mar-18	14-Apr-18		-	20,449	-	-	20,449	
			15-Apr-18	14-Apr-19		81,727	20,449	-	-	102,176	
			15-Apr-19	14-Apr-20		91,011	20,449	-	-	111,460	
			15-Apr-20	14-Apr-21		100,295	20,449	-	-	120,744	
True Fitness Pte Ltd	Novena	238B Thomson Road, #04-01/08 & #05-01/08 Novena Square, Singapore 307685	15-Apr-21	14-Apr-22		109,579	20,449	-	-	130,028	
			1-Oct-16	25-Nov-16	26,679	-	-	-	-	-	Option to renew for 5 years at the prevailing market rent subject to an increase of not more than 15% of the 5th year's gross rental.
			26-Nov-16	25-Nov-17		136,063	32,015	13,340	-	181,417	
			26-Nov-17	25-Nov-18		141,399	32,015	13,340	-	186,753	
			26-Nov-18	25-Nov-19		146,735	32,015	13,340	-	192,089	
	26-Nov-19		154,738	32,015	13,340	-	200,093				

LETTER FROM THE BOARD

Taiwan

LEGAL ENTITY	CLUB DETAILS				RENT DETAILS					OPTION TO RENEW		
	NAME OF CLUB	ADDRESS OF CLUB	FROM	TO	CLUB SIZE (ping)	CLUB SIZE (sqf)	RENT (NTD)	SERVICE CHG (NTD)	PROMO FEE (NTD)		TOTAL (NTD)	
True Concept Ltd.	Chung Hsiao (PART 1/2) 1F	No. 563, Chunghsiao E. Rd., Sec. 4, Taipei, Taiwan	5-Mar-16 5-Mar-18 5-Mar-20 5-Mar-22 5-Mar-24	4-Mar-18 4-Mar-20 4-Mar-22 4-Mar-24 4-Mar-25	145	5,160	1,450,000 1,522,500 1,598,625 1,678,556 1,762,484	17,400 17,400 17,400 17,400 17,400	- - - - -	1,467,400 1,539,900 1,616,025 1,695,956 1,779,884	N/A	
	Chung Hsiao (PART 2/2) B1		15-Jul-15 15-Nov-15	14-Nov-15 14-Jul-18	680	24,186	- 785,400	83,400 83,400	- -	83,400 868,800	Option to renew for 2 terms of 3 years.	
	Chung Hsiao Total											
				1-Jan-17	31-Dec-17	825	29,345	2,235,400	100,800	-	2,336,200	
	True Concept Ltd.	Asia World (PART 1/1) 9F & 10F	9F & 10F, No. 337, Nanjing E. Rd., Sec. 3, Taipei, Taiwan	1-Jan-15	31-Dec-19	779	27,719	1,487,953	116,850	-	1,604,803	N/A

LETTER FROM THE BOARD

CLUB DETAILS				RENT DETAILS					PROMO						
LEGAL ENTITY	NAME OF CLUB	ADDRESS OF CLUB	FROM	TO	CLUB SIZE (ping)	CLUB SIZE (sqf)	RENT (NTD)	SERVICE CHG (NTD)	FEE (NTD)	TOTAL (NTD)	OPTION TO RENEW				
True Concept Ltd.	True Dance (PART 1/3) 3F	2F & 3F, No. 178, Chunghsiao E. Rd., Sec. 4, Taipei, Taiwan*	1-Aug-07	31-Dec-07	127	4,519	-	9,618	-	9,618	N/A				
			1-Jan-08	31-Dec-09			250,000	9,618	-	259,618					
			1-Jan-10	31-Dec-11			262,500	9,618	-	272,118					
			1-Jan-12	31-May-12			275,625	9,618	-	285,243					
			1-Jun-12	31-Dec-13			275,625	10,236	-	285,861					
			1-Jan-14	31-Dec-15			294,918	10,236	-	305,154					
			1-Jan-16	31-Dec-17			315,562	10,236	-	325,798					
			1-Aug-07	31-Dec-07	120	4,270	-	9,088	-	9,088	N/A				
			1-Jan-08	31-Dec-09			200,000	9,088	-	209,088					
			1-Jan-10	31-Dec-11			210,000	9,088	-	219,088					
			1-Jan-12	31-May-12			220,500	9,088	-	229,588					
			1-Jun-12	31-Dec-13			220,500	9,672	-	230,172					
			1-Jan-14	31-Dec-15			235,935	9,672	-	245,607					
			1-Jan-16	31-Dec-17			252,450	9,672	-	262,122					
			True Dance (PART 3/3) 2F	True Dance (PART 3/3) 2F	B1-2, No. 100, Roosevelt Rd., Sec. 2, Taipei, Taiwan	15-Jun-09	14-Aug-09	61	2,171	-	4,620	-	4,620	N/A	
						15-Aug-09	14-Aug-11			188,889	4,620	-	193,509		
15-Aug-11	31-May-12						198,333	4,620	-	202,953					
1-Jun-12	14-Aug-13						198,333	4,917	-	203,250					
15-Aug-13	14-Aug-15						207,778	4,917	-	212,695					
15-Aug-15	14-Aug-17						217,222	4,917	-	222,139					
15-Aug-17	14-Aug-18						226,667	4,917	-	231,584					
1-Jan-17	14-Aug-17	308				10,960	785,234	24,825	-	810,059					
True Concept Ltd.	Gu Ting (PART 1/2) B2	B1-2, No. 100, Roosevelt Rd., Sec. 2, Taipei, Taiwan				1-Apr-08	31-Aug-08	360	12,793	-	22,015	-	22,015	N/A	
						1-Sep-08	31-Aug-10			857,143	33,614	-	890,757		
						1-Sep-10	31-Aug-12			882,857	33,614	-	916,471		
						1-Sep-12	31-Aug-14			909,343	33,614	-	942,957		
						1-Sep-14	31-Aug-16			936,623	33,614	-	970,237		
						1-Sep-16	31-Jan-17			964,722	33,614	-	998,336		
						1-Feb-17	31-Aug-18			964,722	50,421	-	1,015,143		
						True Dance Total									

LETTER FROM THE BOARD

LEGAL ENTITY	NAME OF CLUB	ADDRESS OF CLUB	FROM	TO	CLUB SIZE (ping)	CLUB SIZE (sqf)	RENT DETAILS			PROMO FEE (NTD)	TOTAL (NTD)	OPTION TO RENEW
							RENT (NTD)	SERVICE CHG (NTD)	RENT (NTD)			
True Concept Ltd.	Gu Ting (PART 2/2) B1	No. 2, Heping W. Rd., Sec. 1, Taipei, Taiwan	1-May-08	30-Sep-08	668	23,770	-	40,885	-	-	40,885	N/A
			1-Oct-08	30-Sep-10			971,454	62,456	-	-	1,033,910	
			1-Oct-10	30-Sep-12			1,000,598	62,456	-	-	1,063,054	
			1-Oct-12	30-Sep-14			1,030,616	62,456	-	-	1,093,072	
			1-Oct-14	30-Sep-16			1,061,535	62,456	-	-	1,123,991	
			1-Oct-16	31-Jan-17			1,093,381	62,456	-	-	1,155,837	
			1-Feb-17	31-Aug-18			1,093,381	93,685	-	-	1,187,066	
	Gu Ting Total		1-Feb-17	31-Dec-17	1,028	36,563	2,058,103	144,106	-	2,202,209		
True Concept Ltd.	Tai Chung (PART 1/2) 12F & 13F	12F & 13F, No. 68, Gongyi Road, West Dist., Taichung City, Taiwan	24-May-08	31-Mar-09	752	26,762	-	50,000	-	-	50,000	N/A
			1-Apr-09	30-Sep-09			451,260	53,000	-	-	504,260	
			1-Oct-09	31-May-10			526,470	53,000	-	-	579,470	
			1-Jun-10	31-May-12			552,794	55,500	-	-	608,294	
			1-Jun-12	31-May-14			580,621	58,125	-	-	638,746	
			1-Jun-14	31-May-16			609,201	60,881	-	-	670,082	
			1-Jun-16	31-May-18			640,037	63,775	-	-	703,812	
True Concept Ltd.	Tai Chung Fitness (PART 1/2) 5F	5F, No. 1049, Jianxing Rd., West Dist., Taichung City, Taiwan	15-Sep-11	31-Jan-12	917	32,644	-	-	-	-	-	N/A
			1-Feb-12	14-Apr-12			-	100,000	3,000	3,000	103,000	
			15-Apr-12	14-Apr-13			650,000	100,000	-	-	753,000	
			15-Apr-13	14-Apr-15			680,000	105,000	-	-	788,000	
			15-Apr-15	14-Apr-17			714,000	110,250	-	-	827,250	
			15-Apr-17	14-Apr-19			749,700	115,762	3,000	868,462		
			15-Apr-19	14-Apr-22			787,185	121,550	3,000	911,735		

LETTER FROM THE BOARD

CLUB DETAILS				RENT DETAILS				PROMO		OPTION TO RENEW	
LEGAL ENTITY	NAME OF CLUB	ADDRESS OF CLUB	FROM	TO	CLUB SIZE (ping)	CLUB SIZE (sqf)	RENT (NTD)	SERVICE CHG (NTD)	FEE (NTD)	TOTAL (NTD)	OPTION TO RENEW
True Concept Ltd.	Nei Hu (PART I/1) B1	B1, No. 659, Sec. 1, Neihu Rd., Neihu Dist., Taipei City, Taiwan	28-Mar-13	10-Jun-13	835	29,725	-	96,737	-	96,737	Option to renew for 3 terms of 5 years.
			11-Jun-13	10-Aug-13		575,524	96,737	-	672,261		
			11-Aug-13	10-Sep-13		-	96,737	-	96,737		
			11-Sep-13	10-Jun-17		575,524	96,737	-	672,261	Note: In Year 3 & 4, rental will be adjusted based on prevailing market rate. In Year 5, (a) 1st 6 mths - 40% discount, (b) next 6 mths - 20% discount.	
			11-Jun-17	10-Dec-17		356,675	96,737	-	453,412		
		11-Dec-17	10-Jun-18		475,567	96,737	-	572,304			
True Concept Ltd.	Zhong Li (PART I/1)	7F to 9F, No. 12, Sec. 1, Zhongmei Rd., Zhong Li Dist., Taoyuan City, Taiwan	18-Mar-14	17-Jun-14	652	23,182	-	-	-	-	N/A
			18-Jun-14	17-Jun-15		556,267	93,071	-	649,338		
			18-Jun-15	17-Jun-17		635,733	93,071	-	728,805		
			18-Jun-17	17-Jun-19		675,467	93,071	-	768,538		
			18-Jun-19	17-Jun-20		695,731	93,071	-	788,802		
			18-Jun-20	17-Jun-21		716,603	93,071	-	809,674		
			18-Jun-21	17-Jun-22		738,101	93,071	-	831,172		
			18-Jun-22	17-Jun-23		760,244	93,071	-	853,315		
			18-Jun-23	17-Jun-24		783,051	93,071	-	876,122		
					15-Jul-14	14-Jan-15	2,058	73,242	-	452,835	-
True Concept Ltd.	Power Centre (PART I/1)	8F & 9F, No. 291, Sec. 2, Zhongshan Rd., Zhonghe Dist., New Taipei City, Taiwan	15-Jan-15	14-Jan-17		1,050,000	452,835	-	1,502,835		
			15-Jan-17	14-Jan-19		1,100,000	452,835	-	1,552,835		
			15-Jan-19	14-Jan-21		1,150,000	452,835	-	1,602,835		
			15-Jan-21	14-Jan-23		1,200,000	452,835	-	1,652,835		
			15-Jan-23	14-Jul-24		1,250,000	452,835	-	1,702,835		
True Concept Ltd.	Xi Zhi (PART I/1)	4F, No. 93, Sec. 1, Xintai 5th Rd., Xizhi Dist., New Taipei City 221, Taiwan	15-May-15	15-Dec-15	1,432	50,953	-	214,790	-	214,790	Option to renew for 5 years.
			16-Dec-15	15-Dec-17		1,073,948	214,790	-	1,288,737		
			16-Dec-17	15-Dec-19		1,106,166	214,790	-	1,320,955	2nd term - subject to 3% increase over the rent in year 10 and an increase of 3% every 2 years.	
			16-Dec-19	15-Dec-21		1,139,350	214,790	-	1,354,140		
			16-Dec-21	15-Dec-23		1,173,531	214,790	-	1,388,321		
		16-Dec-23	15-Dec-25		1,208,737	214,790	-	1,423,527			

LETTER FROM THE BOARD

CLUB DETAILS				RENT DETAILS				PROMO			
LEGAL ENTITY	NAME OF CLUB	ADDRESS OF CLUB	FROM	TO	CLUB SIZE (ping)	CLUB SIZE (sqf)	RENT (NTD)	SERVICE CHG (NTD)	FEE (NTD)	TOTAL (NTD)	OPTION TO RENEW
True Concept Ltd.	Nan Gang (China Trust) (PART I/1)	4F, No. 188, Jingmao 2nd Rd., Nangang Dist., Taipei City 115, Taiwan	1-May-16	30-Apr-18	500	17,792	1,250,000	130,000	-	1,380,000	N/A
			1-May-18	30-Apr-19			1,287,500	130,000	-	1,417,500	
			1-May-19	30-Apr-20			1,326,125	130,000	-	1,456,125	
			1-May-20	30-Apr-21			1,365,909	130,000	-	1,495,909	
			1-May-21	30-Apr-22			1,406,886	130,000	-	1,536,886	
			1-May-22	30-Apr-23			1,449,093	130,000	-	1,579,093	
True Concept Ltd.	Tao Yuan (PART I/1)	5F & 6F, No. 77, Tongde 5th St., Taoyuan Dist., Taoyuan City 330, Taiwan	26-Oct-15	31-Jan-16	1,501	53,425	-	225,213	-	225,213	N/A
			1-Feb-16	31-Jan-18			1,249,500	225,213	-	1,474,713	
			1-Feb-18	31-Jan-19			1,323,000	225,213	-	1,548,213	
			1-Feb-19	31-Jan-20			1,323,000	236,474	-	1,559,474	
			1-Feb-20	31-Jan-21			1,396,500	236,474	-	1,632,974	
			1-Feb-21	28-Feb-21			698,250	236,474	-	934,724	
			1-Mar-21	31-Jan-22			1,470,000	236,474	-	1,706,474	
			1-Feb-22	28-Feb-22			735,000	248,297	-	983,297	
			1-Mar-22	31-Jan-23			1,543,500	248,297	-	1,791,797	
			1-Feb-23	28-Feb-23			771,750	248,297	-	1,020,047	
			1-Mar-23	31-Jan-24			1,617,000	248,297	-	1,865,297	
			1-Feb-24	31-Jan-25			1,690,500	248,297	-	1,938,797	
1-Feb-25	31-Jan-26			1,764,000	260,712	-	2,024,712				

LETTER FROM THE BOARD

CLUB DETAILS				RENT DETAILS					PROMO		OPTION TO RENEW				
LEGAL ENTITY	NAME OF CLUB	ADDRESS OF CLUB	FROM	TO	CLUB SIZE (ping)	CLUB SIZE (sqf)	RENT (NTD)	SERVICE CHG (NTD)	FEE (NTD)	TOTAL (NTD)	OPTION TO RENEW				
True Concept Ltd.	Tian Mu (PART I/1)	B1 & 2F, No. 188, Sec. 2, Zhongcheng Rd., Shilin Dist., Taipei City 111, Taiwan	16-Jul-16	15-Oct-16	1,030	36,668	-	154,574	-	154,574	N/A				
			16-Oct-16	15-Oct-17			1,000,000	154,574	-	1,154,574					
			16-Oct-17	15-Oct-18			1,030,000	154,574	-	1,184,574	-				
			16-Oct-18	15-Oct-19			1,060,900	154,574	-	1,215,474	-				
			16-Oct-19	15-Oct-20			1,092,727	154,574	-	1,247,301	-				
			16-Oct-20	15-Oct-21			1,125,509	154,574	-	1,280,083	-				
			16-Oct-21	15-Oct-22			1,159,274	154,574	-	1,313,848	-				
			16-Oct-22	15-Oct-23			1,194,082	154,574	-	1,348,626	-				
			16-Oct-23	15-Oct-24			1,229,874	154,574	-	1,384,448	-				
			16-Oct-24	15-Oct-25			1,266,770	154,574	-	1,421,344	-				
			16-Oct-25	31-Dec-25			1,304,773	154,574	-	1,459,347	-				
			True Concept Ltd.	Chia Yi (PART I/1)	6F & 7F, No. 299, Wenhua Rd., West Dist., Chiayi City 600, Taiwan	15-Nov-16	28-Feb-17	584	20,766	-	112,095	-	112,095	Option to renew for 5 years.	
						1-Apr-17	28-Feb-19			340,000	112,095	-	452,095		
						1-Mar-19	28-Feb-21			357,000	112,095	-	469,095	-	
						1-Mar-21	28-Feb-23			374,850	112,095	-	486,945	-	
1-Mar-23	28-Feb-25						393,600	112,095	-	505,695	-				
1-Mar-25	28-Feb-27						413,300	112,095	-	525,395	-				

LETTER FROM THE BOARD

China

LEGAL ENTITY	CLUB DETAILS				RENT DETAILS				
	NAME OF CLUB	ADDRESS OF CLUB	FROM	TO	CLUB SIZE (sqf)	RENT (RMB)	SERVICE CHG (RMB)	TOTAL (RMB)	OPTION TO RENEW
True Yoga (Xiamen) Co., Ltd.	North Lake	Unit 201, No. 7, Jianye Rd., Siming Dist., Xiamen City, Fujian Province, China.	23-Nov-11	22-Mar-12	29,013	-	5,256	5,256	Option to renew based on written notice.
			23-Mar-12	22-Mar-14		215,629	5,256	220,885	Renewal period and rental amount to be
			23-Mar-14	22-Mar-15		230,723	5,256	235,979	agreed by both parties.
			23-Mar-15	22-Mar-16		246,873	6,334	253,207	
			23-Mar-16	22-Mar-17		264,155	6,334	270,489	
			23-Mar-17	22-Mar-18		282,645	6,334	288,979	
True Yoga (Xiamen) Co., Ltd.	Paragon International	Unit 302, No. 197, Jiabe Rd., Siming Dist., Xiamen City, Fujian Province, China.	15-Oct-16	31-Mar-17	13,272	-	-	-	Option to renew for 2 years.
			1-Apr-17	14-Oct-17		96,466	41,059	137,525	
			15-Oct-17	14-Oct-18		120,583	41,059	161,642	
			15-Oct-18	14-Oct-19		147,960	41,059	189,019	
			15-Oct-19	14-Oct-20		160,290	41,059	201,349	
			15-Oct-20	14-Oct-21		172,620	41,059	213,679	

LETTER FROM THE BOARD

Amongst all the leases as stated above, only one (i.e. Taiwan – True Dance*) will expire in 2017 and will not be renewed. Instead, the Target Group will relocate the True Dance centre situated at this location and renovate and expand the Asia World yoga center into a fitness and yoga center.

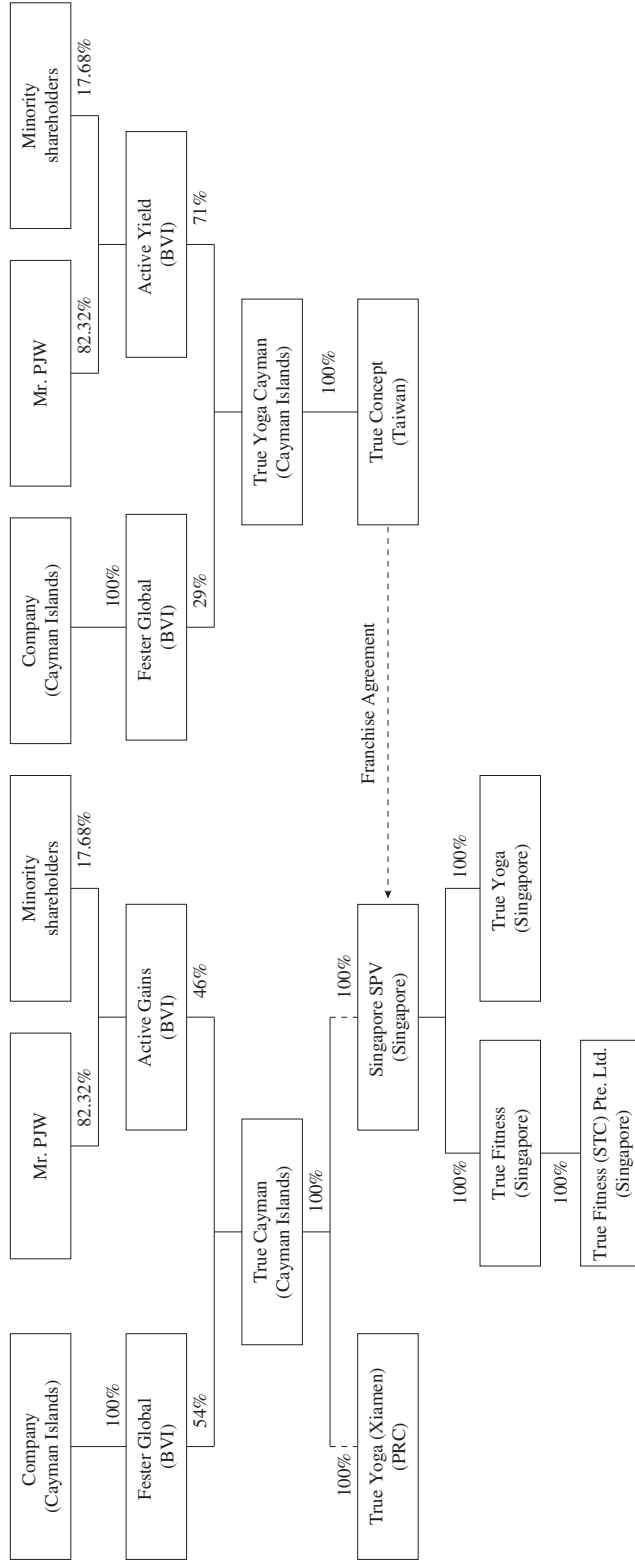
The Target Group generally engages with its landlords nine months before the expiry of a lease to determine if it is able to renew a lease at an agreed rental. In order to determine if the renewed rental rate is reasonable for the Target Group to renew its lease, the management of the Target Group will research for prevailing market rental for similar units in similar locations and if renewed, it would seek to try and renew that lease for at least three to six years at an agreed rate.

Risk factors in the business

1. **Increased competition**, resulting in lower revenue from fewer membership sales, lower revenues from attrition of existing members to competitor clubs, and higher expenses incurred relating to increased marketing and/or promotional effort required to counteract competitive forces.
2. **Changes in economic, political, and social conditions**, resulting in lower revenue collected from fewer membership sales due to decreased consumer confidence or disposable income, higher expenses incurred associated with negative trends in macroeconomic factors, and lower revenue collected and higher expenses incurred owing to disturbances to the Company's ability to carry on business as usual.
3. **Acquisition of new members or retention of existing members**, with lower sales of new memberships, higher attrition rates if existing members fail to renew their memberships, and decrease in revenue collected from the sale of membership and ancillary services.
4. **Brand and reputational damage**, resulting in an erosion of consumer confidence, a decrease in sale of new memberships and retention of existing members, a decrease in revenue collected, or an increase in expenses as a result of actions taken to protect the brand and our reputation.
5. **Changes in laws and regulations**, lower revenue collected owing to unfavourable changes in laws relating to marketing, advertising, contractual membership provisions, and other items which may hinder the Target Group's ability to attract or retain members, or higher expenses incurred relating to increases in fees levied on the Company by regulatory bodies or through increased compliance efforts with more onerous regulations.
6. **Acquisition and retention of key employees**, if there should be a shortage of personnel or a shortage of personnel that meets the Target Group's service quality standards, increased staff and benefits expenses for higher compensation required to attract and retain key personnel, or lower revenue collected owing to difficulties in executing the Target Group's growth strategy without the appropriate human resources.

LETTER FROM THE BOARD

The structure of the Target Group as at the Latest Practicable Date is set out as follows:



LETTER FROM THE BOARD

Financial Information of the Target Group

Based on the financial statements of principal companies comprising the Target Group prepared in accordance with accounting policies which conform with HKFRS, the respective audited financial information for each of the two financial years ended 31 December 2015 and 2016 and the five months ended 31 May 2017 was as follows:

True Fitness and its subsidiary

	For the five months ended/ As at 31 May 2017 (HK\$'000) (audited)	For the year ended/ As at 31 December 2016 2015 (HK\$'000) (HK\$'000) (audited) (audited)	
Revenue	113,118	257,515	252,786
Net profits before taxation	4,958	432	9,028
Net profits after taxation	4,958	432	9,028
Net assets	24,991	20,421	6,352

For the year ended 31 December 2016, the net profit of True Fitness decreased from approximately HK\$9.0 million for the year ended 31 December 2015 to approximately HK\$0.4 million mainly due to a one-off provision for financial guarantee to a third party in respect of the loan facilities of HK\$22.9 million incurred in 2016.

Without considering this one-off provision of the financial guarantee, True Fitness's net profit would have increased to approximately HK\$23.3 million in 2016. Such increase in net profit in 2016 was mainly due to (i) lower cost resulting from temporary closure of Parkway Parade club to be relocated; (ii) closure of loss making club – China Square club; and (iii) better performance mainly from two other clubs resulting from clubs closure where members are consolidated to other existing clubs.

LETTER FROM THE BOARD

As at 31 December 2016, net assets of True Fitness increased from approximately HK\$6.4 million as at 31 December 2015 to approximately HK\$20.4 million mainly contributed by the reversal of imputed interest (HK\$14,103,000) in relation to an amount due from True Yoga. The reversal adjustment of imputed interest was made in 2016 to reflect the fact that the amount due from True Yoga would be settled in 2017.

True Yoga

	For the five months ended/ As at 31 May 2017 (HK\$'000) (audited)	For the year ended/ As at 31 December 2016 2015 (HK\$'000) (HK\$'000) (audited) (audited)	
Revenue	13,245	41,508	52,277
Net losses before taxation	(7,329)	(15,660)	(25,096)
Net losses after taxation	(7,329)	(15,660)	(25,096)
Net liabilities	(244,017)	(222,377)	(212,083)

For the year ended 31 December 2016, the net loss of True Yoga narrowed down to approximately HK\$15.7 million from a net loss of approximately HK\$25.1 million for the year ended 31 December 2015 mainly due to closure of the club – Ocean Financial centre club in March 2016 which recorded a net loss of approximately HK\$9.6 million in 2015.

True Yoga recorded net liabilities for the years ended 31 December 2015 and 2016 and the five months ended 31 May 2017 attributable to the accumulated net loss in the past resulting from the substantial overhead cost such as staff cost of senior management. The Company and Mr. PJW have agreed to reduce the overhead cost of True Yoga after Completion. It is estimated that the overhead cost of True Yoga will be reduced by approximately US\$1.5 million per annum and its financial results will improve accordingly.

LETTER FROM THE BOARD

True Yoga Cayman and its subsidiaries (including True Concept and True Yoga (Xiamen))

	For the five months ended/ As at 31 May 2017 (HK\$'000) (audited)	For the year ended/ As at 31 December 2016 (HK\$'000) (audited)		2015 (HK\$'000) (audited)
Revenue	153,873	313,727		263,661
Net profits before taxation	1,799	8,969		6,655
Net (losses) profits after taxation	(1,167)	4,133		6,126
Net assets	31,369	49,941		45,577

Accountants' reports containing the audited consolidated financial information on the principal companies comprising the Target Group are included in Appendix II to this circular.

REASONS AND BENEFITS FOR ENTERING INTO SALE AND PURCHASE AGREEMENTS

The Group is principally engaged in the manufacture and sales of cement, clinker and slag, trading of cement and provision of technical services with operations in Shandong province and Shanghai, and manufacturing and sales of prescription drugs and other pharmaceutical-related businesses and pharmaceutical research and testing in the PRC.

The Purchaser is an investment holding company and except for the Acquisition, it has not had any business operations since its incorporation.

Founder of the Target Group, Mr. PJW, hired a financial advisor to bring in a strategic investor/buyer for his business from 2016, so that the Target Group can tap into the high potential fitness business in China. In the middle of 2016, his financial advisor, through its China contact, sent an introduction of the Target Group to Mr. Yi Peijian, CEO of Shenzhen Waranty (being the controlling shareholder of the Company), and the Company became acquainted with Mr. PJW at the then material time.

The Company has been looking for investment opportunities in the universal health sector from time to time. After the approach as mentioned above, the Company immediately considered the possibility of acquiring the Target Group from Mr. PJW as it considered that the Company could leverage its resources to facilitate the Target Group to expand the business in China.

LETTER FROM THE BOARD

The Board has reviewed the business of the Group and has been actively exploring the medical, pharmaceutical and health industry businesses and other investment opportunities. The transactions are in line with the business strategy of the Group as fitness centres belong to universal health industry. In tandem with the growth of economy, health awareness in Taiwan, Singapore and the PRC is invariably growing. The future developments of the True Cayman Group and the True Yoga Cayman Group, as fitness centre operators, well fit in this favourable trend. Meanwhile, the Group can diversify its income sources geographically.

The Directors (including all the independent non-executive Directors) are of the view that the terms of the Sale and Purchase Agreements and the Franchise Agreement (including the annual caps and duration thereof) have been entered into on normal commercial terms and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

BUSINESS PROSPECTS OF THE TARGET GROUP

The fitness centers of the Target Group are currently located in Singapore, PRC and Taiwan. The Board is optimistic of the growth potential of the fitness business in such regions and that the Acquisition would allow the Company to capture the business opportunities.

Singapore

The Target Group currently has eight fitness and yoga centers and two yoga centers operating in Singapore. The total number of large scale fitness centers (centers exceeding 15,000 sq. ft.) operated by the competitors together with the Target Group is less than 50 centers catering to a population of 4.8 million people. Based on a 2015 report by IHRSA, only 4.1% of the population or 220,000 people have a fitness membership, far less than the penetration of the more matured American and Australian markets where 17.5% and 14.8%, respectively, of the population have a fitness club membership. The revenue of the fitness industry in Singapore is only at US\$222 million and growing as more people subscribe to fitness memberships and personal training services. It is estimated that in the more matured markets like in America, 13.5% of the members of a fitness center use a personal trainer.

LETTER FROM THE BOARD

PRC

The Target Group currently has two fitness and yoga centers operating in Xiamen, the PRC. The total number of large scale fitness centers (centers exceeding 15,000 sq. ft.) operated by the competitors together with the Target Group is less than 3,346 centers catering to a population of 1.2 billion people. Based on a 2015 report by IHRSA, only 0.4% of the population or 4,800,000 people have a fitness membership, far less than the penetration of the more matured American and Australian markets where 17.5% and 14.8%, respectively, of the population have a fitness club membership. The revenue of the fitness industry in the PRC is only at US\$1.98 billion and growing as more people subscribe to fitness memberships and personal training services. It is estimated that in the more matured markets like in America, 13.5% of the members of a fitness center use a personal trainer.

Taiwan

The Target Group currently has 11 fitness and yoga centers, two yoga and dance centers and one dance center operating in Taiwan. The total number of large scale fitness centers (centers exceeding 15,000 sq. ft.) operated by the competitors together with the Target Group is less than 100 centers catering to a population of 24 million people. Based on a 2015 report by IHRSA, only 2.5% of the population or 460,000 people have a fitness membership, far less than the penetration of the more matured American and Australian markets where 17.5% and 14.8%, respectively, of the population have a fitness club membership. The revenue of the fitness industry in Taiwan is only at US\$333 million and growing as more people subscribe to fitness memberships and personal training services. It is estimated that in the more matured markets like in America, 13.5% of the members of a fitness center use a personal trainer.

With the growing affluence and desire to keep and be fit growing amongst the local and expatriate population in Singapore, PRC and Taiwan, there is an opportunity for the Target Group expanding its fitness centers to cater for the growing need and trend for fitness in the aforesaid regions, in particular PRC. In the short run, the Target Group plans to add one flagship club in Chengdu, Chongqing and Shenzhen, respectively, to build up its brand identity.

FINANCIAL EFFECT ON THE GROUP

According to the unaudited pro forma consolidated statement of financial position of the Enlarged Group as set out in Appendix III to this circular, assuming the Acquisition took place on 31 December 2016, the total assets of the Enlarged Group would have been increased by approximately HK\$362.3 million from approximately HK\$3,154.2 million as at 31 December 2016 to approximately HK\$3,516.5 million, and total liabilities of the Enlarged Group would have been increased by approximately HK\$408.9 million from approximately HK\$1,511.1 million as at 31 December 2016 to approximately HK\$1,920.0 million.

LETTER FROM THE BOARD

Completion took place on 29 May 2017, based on the business prospects of the Target Group, it is expected that the Acquisition will have a positive impact on the earnings of the Group.

IMPLICATIONS UNDER THE LISTING RULES

As more than one of the applicable percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) in relation to the Acquisition exceed 25% and are less than 100%, the Acquisition constitutes a major transaction for the Company and is subject to notification, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, no Shareholder or any of their respective associates have any material interest in the Sale and Purchase Agreements and the transactions contemplated thereunder, thus no Shareholder was required to abstain from voting at the Company's general meeting for the approval of the Sale and Purchase Agreements and the transactions contemplated thereunder. On 15 May 2017, the Company had obtained a written shareholder approval from China Health, the controlling Shareholder directly holding 3,164,252,000 Shares, representing approximately 63.92% of the total issued Shares, as at the Latest Practicable Date, in lieu of holding a general meeting to approve the Sale and Purchase Agreements and the Acquisition in accordance with Rule 14.44 of the Listing Rules.

RECOMMENDATION

Although no general meeting will be convened for approving the Acquisition, the Directors (including the independent non-executive Directors) believe that the Acquisition and the Sale and Purchase Agreements are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole. Accordingly, if the general meeting were convened for approving the Acquisition, the Directors would have recommended the Shareholders to vote in favour of the Acquisition and the Sale and Purchase Agreements.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of
Tongfang Kontafarma Holdings Limited
Huang Yu
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group:

- (i) for the year ended 31 December 2016 has been disclosed on pages 77 to 192 of the Company's 2016 annual report published on 26 April 2017;
- (ii) for the year ended 31 December 2015 has been disclosed on pages 57 to 144 of the Company's 2015 annual report published on 27 April 2016; and
- (iii) for the year ended 31 December 2014 has been disclosed on pages 58 to 132 of the Company's 2014 annual report published on 15 April 2015.

The aforesaid annual reports of the Company have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and of the Company (<http://www.tfkf.com.hk>).

Please see below the hyperlinks to the relevant annual reports of the Company:

- Annual report of the Company for the year ended 31 December 2014:
<http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0415/LTN20150415401.pdf>
- Annual report of the Company for the year ended 31 December 2015:
<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0427/LTN20160427043.pdf>
- Annual report of the Company for the year ended 31 December 2016:
<http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0426/LTN201704261578.pdf>

2. INDEBTEDNESS STATEMENT OF THE ENLARGED GROUP

As at 31 May 2017, the details of the Group's indebtedness and contingent liabilities are as follow:

Bank and other borrowings

As at 31 May 2017, the Group had outstanding bank and other borrowings of approximately HK\$782,588,000. The borrowings comprised (i) unsecured and unguaranteed bank and other borrowings of approximately HK\$546,440,000; (ii) unsecured and guaranteed bank and other borrowings of approximately HK\$37,478,000; and (iii) secured and guaranteed bank and other borrowings of approximately HK\$198,670,000.

Bank and other borrowings of (i) approximately HK\$230,280,000 were guaranteed by Shenzhen Warranty, an intermediate holding company of the Company; (ii) approximately HK\$3,522,000 were guaranteed by Mr. PJW; and (iii) approximately HK\$2,346,000 were guaranteed by True Concept.

The aforesaid bank borrowings of approximately HK\$198,670,000 were secured by the Group's land use rights, buildings and plant and equipment and pledged bank deposits as at 31 May 2017.

Obligations under finance leases

As at 31 May 2017, the Group had outstanding obligations under finance leases of approximately HK\$5,114,000. The obligation under finance leases of (i) approximately HK\$4,480,000 were charged over leased assets and guaranteed by Mr. PJW; and (ii) approximately HK\$634,000 were charged over the leased assets and unguaranteed.

Amounts due to related parties

As at 31 May 2017, the Group had outstanding amounts due to related parties of approximately HK\$12,126,000 which were unguaranteed and unsecured.

Contingent liabilities and guarantee

As at 31 May 2017, the Group granted a financial guarantee to a third party in respect of loan facilities amounting to THB100,000,000 (equivalent to approximately HK\$22,828,000) and the accrued interest granted to an entity under control of Mr. PJW.

Save as aforesaid, and apart from intra-group liabilities and normal trade and other payables, at 31 May 2017, the Group did not have any debt securities issued or outstanding or authorised or otherwise created but unissued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL OF THE ENLARGED GROUP

The Directors, after due and careful enquiry, are of the opinion that, in the absence of unforeseeable circumstances, after taking into account the Acquisition, its presently available financial resources, including funds internally generated from operation and the available financing facilities, the Enlarged Group will have sufficient working capital for its operation for at least the next twelve months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the Group's latest published audited consolidated financial statements were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The revenue of the Group for the year ended 31 December 2016 was approximately HK\$633.3 million (2015: HK\$465.7 million), representing an increase of 36.0% as compared to the previous year. The loss for the year of the Group was approximately HK\$27.6 million (2015: HK\$29.8 million).

The Group recorded a significant increase of HK\$167.6 million in revenue for the year ended 31 December 2016 as compared to the year ended 31 December 2015. Approximately HK\$124.5 million of such increase was attributable to the revenue generated by Tongfang Pharmaceutical Group Co., Ltd* 同方藥業有限公司 (“**Tongfang Pharmaceutical**”) (formerly known as Beijing Ziguang Pharmaceutical Co., Ltd.* (北京紫光製藥有限公司)) and its subsidiaries for the period since the completion of the Group's acquisition of 60% equity interest in Tongfang Pharmaceutical that took place in July 2016 to 31 December 2016.

Outlook

Cement business

In 2016, the PRC economy was facing with various risks such as narrowing trade surplus, weak private investment and economic downturn. In the Central Economic Working Conference (中央經濟工作會議) held in December 2016, the PRC government clearly put forward that, they would focus on promoting the supply-side structural reform, moderately expanding social demand and properly dealing with emerging risks and challenges. The year 2017 will be crucial for deepening supply-side reform.

To deepen the supply-side structural reform, it is required to take the first step of reducing overcapacity. Only by adopting the policies of “promoting staggering production” and “prohibiting the production of grade 32.5 composite portland cement” proposed in the 《關於促進建材工業穩增長調結構增效益的指導意見》(國辦發[2016]34號) (“Guiding Opinions on Promoting Steady Growth, Restructuring and Efficiency Improvement of Building Materials Industry” (Guo Ban Fa [2016] No.34)*) issued by the State Council of the PRC in May 2016, which represents hope for industrial development, to remove the gloom of massive overcapacity in the development of cement industry, can we solve the problem of overcapacity, secure benefits from the industry and push forward industry transformation and upgrade.

It is expected that the PRC government will continue the efforts to intensify its investment in infrastructure construction in 2017. As cement is one of the basic materials in the construction of infrastructure, the demand of cement will naturally be strong. In 2017, the merger, acquisition and reorganisation among large scale corporations in the cement market will sustain its momentum in 2016 to further improve industrial concentration. It is anticipated that the government will further strengthen regulation on environmental protection. Therefore, the duration of production suspension will be increased, affecting the production volume of cement. Having taken into account the above factors, the Group expects that, in 2017, the market price of cement will show a trend of steady rise and the production volume of cement in the PRC will be roughly equivalent to the total output of 2016. Against such background, the performance of cement industry in the PRC is expected to be improved.

Medical, pharmaceutical and health business

In 2016, the PRC government has enacted a number of laws and regulations and the relevant government departments have enforced the greatest coordinated supervision that have never seen over the past 30 years. It demonstrates the government's determination to push forward the pharmaceutical reform. In the Report on the Work of the Government of 2016, Premier Li Keqiang has expressly put forward the ideas that "We will advance the coordinated reform of medical services, medical insurance, and the medicine industry. Health is the root of happiness." This points out the way for future development of the pharmaceutical industry in the PRC. Standing at the crossroad of reform, Tongfang Pharmaceutical and its subsidiaries will firmly seize the opportunities emerging from this new era by taking full advantage of its own industrial chain and adhering to its overall strategy of "dedicate to the frontier market, seek our own advantages, strengthen our internal management and maintain our leading position in the market segment", with the aim to sustain sound momentum for growth and seize the greatest market share in the market segment, thus delivering better performance for the coming year.

In 2017, the Group will continue to leverage on the opportunities brought by the reform, actively respond to the deployment of the national strategic planning and government's reform, and build the core competitiveness for the rapid development by quick reaction and innovative research and development model, cooperation model and sales model. Tongfang Pharmaceutical and its subsidiaries will continue to strengthen its internal management, make full use of management tools in internal control, organisational structure, financial management and human resources, and enhance the overall operation level through management, so as to better reflect the value creation.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The following is the text of a report set out on pages II-1 to II-58, received from the reporting accountants of Tongfang Kontafarma Holdings Limited, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte.

德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF TONGFANG KONTAFARMA HOLDINGS LIMITED

Introduction

We report on the historical financial information of True Fitness Pte. Ltd. (“True Fitness”) and its subsidiary (together, the “True Fitness Group”) set out on pages II-4 to II-58, which comprises the consolidated statements of financial position as at 31 December 2014, 2015 and 2016 and 31 May 2017 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years then ended and for the five months ended 31 May 2017 (the “Relevant Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information of True Fitness Group”). The Historical Financial Information of True Fitness Group set out on pages II-4 to II-58 forms an integral part of this report, which has been prepared for inclusion in the circular of Tongfang Kontafarma Holdings Limited (“Tongfang”) dated 28 July 2017 in connection with the acquisition of 51% shareholding of TFKT True Holdings and 29% shareholding of True Yoga Holdings Limited, of which True Fitness is an indirect wholly-owned subsidiary of TFKT True Holdings, by Fester Global Limited, an indirect wholly-owned subsidiary of Tongfang (the “Acquisition”) (the “Circular”).

Director's responsibility for the Historical Financial Information of True Fitness Group

The director of True Fitness is responsible for the preparation of Historical Financial Information of True Fitness Group that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information of True Fitness Group, and for such internal control as the director of True Fitness determines is necessary to enable the preparation of Historical Financial Information of True Fitness Group that is free from material misstatement, whether due to fraud or error.

The directors of Tongfang are responsible for the contents of the Circular in which the Historical Financial Information of True Fitness Group is included, and such information is prepared based on accounting policies materially consistent with those of Tongfang.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information of True Fitness Group and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information of True Fitness Group is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information of True Fitness Group. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information of True Fitness Group, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of Historical Financial Information of True Fitness Group that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information of True Fitness Group in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director of True Fitness, as well as evaluating the overall presentation of the Historical Financial Information of True Fitness Group.

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

Opinion

In our opinion, the Historical Financial Information of True Fitness Group gives, for the purposes of the accountants’ report, a true and fair view of True Fitness Group’s financial position as at 31 December 2014, 2015 and 2016 and 31 May 2017 and of True Fitness Group’s financial performance and cash flows for the Relevant Period in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information of True Fitness Group.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of True Fitness Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the five months ended 31 May 2016 and other explanatory information (the “Stub Period Comparative Financial Information of True Fitness Group”). The director of True Fitness is responsible for the preparation of the Stub Period Comparative Financial Information of True Fitness Group in accordance with the basis of preparation set out in note 2 to the Historical Financial Information of True Fitness Group. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information of True Fitness Group based on our review. We conducted our review 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 of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information of True Fitness Group, for the purposes of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the Historical Financial Information of True Fitness Group.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

The Historical Financial Information of True Fitness Group is stated after making such adjustments to the Historical and Underlying Financial Statements of True Fitness Group as defined on page II-4 as were considered necessary.

Dividends

We refer to note 12 to the Historical Financial Information of True Fitness Group which states that no dividends have been paid by True Fitness Group in respect of the Relevant Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 July 2017

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

HISTORICAL FINANCIAL INFORMATION OF TRUE FITNESS GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information of True Fitness Group which forms an integral part of this accountants' report.

The Historical Financial Information of True Fitness Group in this report was prepared based on previously issued consolidated financial statements of True Fitness Group for the years ended 31 December 2014, 2015 and 2016 which have been prepared in accordance with the provisions of the Companies Act, Chapter 50 and Financial Reporting Standards in Singapore (“SFRS”) issued by the Accounting Standards Council and were audited by KPMG LLC in accordance with Singapore Standards on Auditing. For the five months ended 31 May 2017, the director of True Fitness has prepared the consolidated financial statements of True Fitness Group in accordance with SFRS and we have audited the consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by HKICPA. (collectively “Historical and Underlying Financial Statements of True Fitness Group”).

The Historical Financial Information of True Fitness Group is presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

	Notes	For the year ended 31 December			For the five months ended 31 May	
		2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
Revenue	6	274,311	252,786	257,515	103,931	113,118
Other income	7	7,717	8,248	5,088	4,213	2,061
Other gains and losses	8	(2,597)	(2,813)	(802)	108	913
Rental expenses		(77,744)	(72,099)	(62,609)	(24,317)	(29,263)
Staff costs		(106,467)	(104,543)	(107,486)	(43,824)	(48,328)
Depreciation of plant and equipment		(16,803)	(15,965)	(14,355)	(6,051)	(6,637)
Provision recognised for financial guarantee	21	–	–	(22,916)	–	(1,770)
Other expenses		<u>(64,035)</u>	<u>(55,330)</u>	<u>(52,325)</u>	<u>(22,075)</u>	<u>(24,625)</u>
Results from operating activities		14,382	10,284	2,110	11,985	5,469
Finance costs	9	<u>(1,205)</u>	<u>(1,256)</u>	<u>(1,678)</u>	<u>(752)</u>	<u>(511)</u>
Profit before tax		13,177	9,028	432	11,233	4,958
Income tax expense	10	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Profit for the year/period	11	<u>13,177</u>	<u>9,028</u>	<u>432</u>	<u>11,233</u>	<u>4,958</u>
Other comprehensive (expense) income for the year/period						
Item that will not be reclassified to profit or loss						
Exchange differences arising on translation to presentation currency		<u>(814)</u>	<u>(1,328)</u>	<u>(466)</u>	<u>373</u>	<u>907</u>
Total comprehensive income (expense) for the year/period		<u>12,363</u>	<u>7,700</u>	<u>(34)</u>	<u>11,606</u>	<u>5,865</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<i>Notes</i>	As at 31 December			As at
		2014	2015	2016	31 May
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets					
Plant and equipment	14	79,186	59,504	56,443	60,289
Rental deposits		10,827	10,705	14,248	8,744
Pledged bank deposits	15	5,471	2,389	2,340	2,162
Amount due from a related party	16	<u>130,957</u>	<u>152,616</u>	<u>–</u>	<u>–</u>
		<u>226,441</u>	<u>225,214</u>	<u>73,031</u>	<u>71,195</u>
Current assets					
Trade and other receivables	17	5,757	6,197	5,339	4,397
Amounts due from related parties	16	29,783	41,236	219,770	214,192
Bank balances and cash	15	<u>2,484</u>	<u>2,960</u>	<u>3,527</u>	<u>6,487</u>
		<u>38,024</u>	<u>50,393</u>	<u>228,636</u>	<u>225,076</u>
Current liabilities					
Other payables and accruals	18	53,830	35,576	24,645	29,062
Obligations under finance leases	19	1,982	3,352	2,056	2,513
Deferred income		127,319	123,692	129,718	137,833
Amounts due to related parties	16	2,879	30,264	29,991	174
Bank and other borrowings	20	5,523	5,006	933	3,161
Provision for financial guarantee	21	<u>–</u>	<u>–</u>	<u>21,823</u>	<u>24,565</u>
		<u>191,533</u>	<u>197,890</u>	<u>209,166</u>	<u>197,308</u>
Net current (liabilities) assets		<u>(153,509)</u>	<u>(147,497)</u>	<u>19,470</u>	<u>27,768</u>
Total assets less current liabilities		<u><u>72,932</u></u>	<u><u>77,717</u></u>	<u><u>92,501</u></u>	<u><u>98,963</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

	Notes	As at 31 December			As at
		2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	31 May 2017 HK\$'000
Capital and reserves					
Share capital	23	23,378	23,378	23,378	23,378
Reserves		<u>(22,129)</u>	<u>(17,026)</u>	<u>(2,957)</u>	<u>1,613</u>
Total equity		<u>1,249</u>	<u>6,352</u>	<u>20,421</u>	<u>24,991</u>
Non-current liabilities					
Bank and other borrowings	20	3,934	594	407	361
Obligations under finance leases	19	2,011	2,912	807	1,967
Provision of reinstatement cost	22	10,371	9,156	13,754	14,913
Deferred income		<u>55,367</u>	<u>58,703</u>	<u>57,112</u>	<u>56,731</u>
		<u>71,683</u>	<u>71,365</u>	<u>72,080</u>	<u>73,972</u>
		<u>72,932</u>	<u>77,717</u>	<u>92,501</u>	<u>98,963</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i> <i>(Note)</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2014	23,378	(7,685)	(29,023)	6,478	(6,852)
Profit for the year	-	-	-	13,177	13,177
Other comprehensive expense for the year					
– Exchange differences arising on translation to presentation currency	-	(814)	-	-	(814)
Total comprehensive (expense) income for the year	-	(814)	-	13,177	12,363
Deemed distribution to controlling party resulting from change in fair value of amount due from a related party	-	-	(4,262)	-	(4,262)
At 31 December 2014	23,378	(8,499)	(33,285)	19,655	1,249
Profit for the year	-	-	-	9,028	9,028
Other comprehensive expense for the year					
– Exchange differences arising on translation to presentation currency	-	(1,328)	-	-	(1,328)
Total comprehensive (expense) income for the year	-	(1,328)	-	9,028	7,700
Deemed distribution to controlling party resulting from change in fair value of amount due from a related party	-	-	(2,597)	-	(2,597)
At 31 December 2015	23,378	(9,827)	(35,882)	28,683	6,352
Profit for the year	-	-	-	432	432
Other comprehensive expense for the year					
– Exchange differences arising on translation to presentation currency	-	(466)	-	-	(466)
Total comprehensive (expense) income for the year	-	(466)	-	432	(34)
Deemed contribution from controlling party resulting from change in fair value of amount due from a related party	-	-	14,103	-	14,103

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

	Share capital HK\$'000	Exchange reserve HK\$'000	Other reserve HK\$'000 (Note)	Retained profits HK\$'000	Total HK\$'000
At 31 December 2016	23,378	(10,293)	(21,779)	29,115	20,421
Profit for the period	-	-	-	4,958	4,958
Other comprehensive income for the period					
– Exchange differences arising on translation to presentation currency	-	907	-	-	907
Total comprehensive income for the period	-	907	-	4,958	5,865
Deemed distribution to controlling party (note 34)	-	-	(1,295)	-	(1,295)
At 31 May 2017	<u>23,378</u>	<u>(9,386)</u>	<u>(23,074)</u>	<u>34,073</u>	<u>24,991</u>
For the five months ended 31 May 2016 (unaudited)					
At 31 December 2015	23,378	(9,827)	(35,882)	28,683	6,352
Profit for the period	-	-	-	11,233	11,233
Other comprehensive income for the period					
– Exchange differences arising on translation to presentation currency	-	373	-	-	373
Total comprehensive income for the period	-	373	-	11,233	11,606
Deemed distribution to controlling party resulting from change in fair value of amount due from a related party	-	-	(2,597)	-	(2,597)
At 31 May 2016 (unaudited)	<u>23,378</u>	<u>(9,454)</u>	<u>(38,479)</u>	<u>39,916</u>	<u>15,361</u>

Note:

As at 31 December 2014, 2015 and 2016 and 31 May 2015 and 2016. True Fitness Group had amount due from a related party that was unsecured, interest-free and repayable on demand. The amount was measured at fair value using market interest rate based on the best estimate at the time of initial recognition.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended 31 December			For the five months ended 31 May	
	2014 <i>HKS'000</i>	2015 <i>HKS'000</i>	2016 <i>HKS'000</i>	2016 <i>HKS'000</i> (unaudited)	2017 <i>HKS'000</i>
Operating activities					
Profit before tax	13,177	9,028	432	11,233	4,958
Adjustments for:					
Depreciation of plant and equipment	16,803	15,965	14,355	6,051	6,637
Loss on disposal of plant and equipment	133	31	32	32	1
Allowance for bad and doubtful debts	1,634	902	653	–	–
Finance costs	1,205	1,256	1,678	752	511
Interest income	(4,204)	(5,501)	(259)	(103)	(92)
Provision recognised for financial guarantee	–	–	22,916	–	1,770
Written off on plant and equipment	782	916	93	83	544
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Operating cash flows before movements in working capital	29,530	22,597	39,900	18,048	14,329
Decrease in amounts due from related parties	19,908	16,831	16,122	6,215	6,486
(Increase) decrease in rental deposits	(453)	(615)	(3,965)	1,608	6,138
Decrease (increase) in trade and other receivables	22,912	(1,752)	(547)	95	1,180
(Decrease) increase in other payables	(8,212)	(11,392)	(9,544)	(7,825)	1,839
Increase (decrease) in deferred income	5,616	12,213	8,829	(4,857)	(585)
Decrease in provision of reinstatement cost	–	(263)	(57)	–	(136)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash generated from operating activities	<u>69,301</u>	<u>37,619</u>	<u>50,738</u>	<u>13,284</u>	<u>29,251</u>
Investing activities					
Advance to related parties	(84,271)	(92,077)	(65,792)	(18,108)	(43,738)
Purchase of plant and equipment	(9,574)	(430)	(10,038)	(2,296)	(3,855)
Repayments from related parties	30,149	31,694	33,276	12,092	20,654
Withdrawal of pledged bank deposits	3,913	2,819	–	–	282
Proceeds from disposal of plant and equipment	124	356	15	–	90
Interest received	11	75	259	6	19
Placement of pledged bank deposits	–	–	(3)	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash used in investing activities	<u>(59,648)</u>	<u>(57,563)</u>	<u>(42,283)</u>	<u>(8,306)</u>	<u>(26,548)</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

	For the year ended			For the five months	
	31 December			ended 31 May	
	2014	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financing activities				(unaudited)	
Repayments of bank and other borrowing	(17,869)	(5,721)	(4,475)	(1,944)	(693)
Repayments to related parties	-	(421)	-	-	(230)
Repayment of finance leases	(2,067)	(3,455)	(3,264)	(1,486)	(1,095)
Repayment of loan from a related party	-	(2,457)	-	-	-
Interest paid	(1,205)	(1,256)	(1,678)	(752)	(511)
Advance from related parties	173	-	751	323	-
New borrowings raised	9,822	2,489	337	-	2,875
Loan from a related party	-	31,130	-	-	-
	<u>-</u>	<u>31,130</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash (used in) generated from financing activities	<u>(11,146)</u>	<u>20,309</u>	<u>(8,329)</u>	<u>(3,859)</u>	<u>346</u>
Net (decrease) increase in cash and cash equivalents	(1,493)	365	126	1,119	3,049
Cash and cash equivalents at beginning of the year/period	3,713	2,484	2,960	2,960	3,527
Effect of foreign exchange rate changes	<u>264</u>	<u>111</u>	<u>441</u>	<u>(125)</u>	<u>(89)</u>
Cash and cash equivalents at end of the year/period, represented by bank balances and cash	<u><u>2,484</u></u>	<u><u>2,960</u></u>	<u><u>3,527</u></u>	<u><u>3,954</u></u>	<u><u>6,487</u></u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF TRUE FITNESS GROUP**1. General information**

True Fitness was incorporated on 19 August 1997 in the Republic of Singapore. The address of the registered office and principal place of business is 8 Claymore Hill, #02-03, 8 on Claymore, Singapore, 229572. Its immediate holding company was CJ Group Pte. Ltd., a company incorporated in the Republic of Singapore. Prior to the completion of the Acquisition on 29 May 2017, its ultimate holding company was WCJ Holdings Ltd, a company incorporated in the Republic of Mauritius, and its ultimate controlling party was Mr. Patrick John Wee Ewe Seng. Upon the completion of the Acquisition, its ultimate holding company is 深圳市奧融信投資有限公司 (Shenzhen Aorongxin Investment Development Co., Ltd.), a company established under the laws of the PRC with limited liability.

True Fitness and its subsidiary (collectively referred to as “True Fitness Group”) are principally engaged in the operation of fitness centres and the provision of consultation services for fitness and health activities.

The Historical Financial Information of True Fitness Group is presented in Hong Kong Dollars (HK\$) for the purpose of this Circular while the functional currency of True Fitness is Singapore Dollar (“SGD”).

2. Basis of preparation of the Historical Financial Information of True Fitness Group

The Historical Financial Information of True Fitness Group has been prepared based on the accounting policies set out in note 4 which conform with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

3. Application of HKFRSs

For the purpose of preparing and presenting the Historical Financial Information of True Fitness Group for the Relevant Period, True Fitness Group has consistently adopted the HKFRSs issued by the HKICPA, which are effective for the accounting periods beginning on 1 January 2017, throughout the Relevant Period.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

New and amendments to HKFRSs and new interpretation in issue but not yet effective

True Fitness Group has not early applied the following new and amendments to HKFRSs and the new interpretation that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration ¹
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle except for amendments to HKFRS 12 ¹

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

HKFRS 9 “Financial Instruments”

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Key requirements of HKFRS 9 which are relevant to True Fitness Group are described as follows:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 “Financial Instruments: Recognition and Measurement”. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on True Fitness Group’s financial instruments and risk management policies as at 31 May 2017, upon application of HKFRS 9, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to True Fitness Group’s financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the director of True Fitness performs a detailed review.

HKFRS 15 “Revenue from Contracts with Customers”

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The director of True Fitness anticipates that the application of HKFRS 15 in the future may result in more disclosures, however, the director of True Fitness does not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, True Fitness Group currently presents operating lease payments as operating cash flows. Under HKFRS 16, lease payments in relation to lease liability will be allocated into a principle and an interest portion which will be presented as financing cash flows.

Under HKAS 17, True Fitness Group has already recognised an asset and a related finance lease liability for finance lease arrangement where True Fitness Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether True Fitness Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

As at 31 May 2017, True Fitness Group has non-cancellable operating lease commitments of HK\$223,919,000 as disclosed in note 25. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence True Fitness Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the director of True Fitness completes a detailed review.

Except as described above, the director of True Fitness considers that the application of the other amendments to HKFRSs and the new interpretation will have no material impact on the results and the financial position of True Fitness Group.

4. Significant Accounting Policies

The Historical Financial Information of True Fitness Group has been prepared on the historical cost basis. In addition, the Historical Financial Information of True Fitness Group includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, True Fitness Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information of True Fitness Group is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The significant accounting policies are set out below.

Basis of consolidation

The Historical Financial Information of True Fitness Group incorporates the financial statements of the companies now comprising True Fitness Group. Control is achieved when True Fitness:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

True Fitness Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when True Fitness Group obtains control over the subsidiary and ceases when True Fitness Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date True Fitness Group gains control until the date when True Fitness Group ceases to control the subsidiary.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with True Fitness Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the True Fitness Group are eliminated in full on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the True Fitness Group and when specific criteria have been met for each of the True Fitness Group's activities, as described below.

Monthly fees received for membership are recognised as revenue on straight-line basis over the service usage period. Instalments received in advance for prepaid packages are recorded as deferred income.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Revenue from trial classes is recognised when the trial class is provided.

Revenue from personal training classes is recognised when the personal training class is provided.

Revenue from registration and processing fee is recognised when service package contract is entered with customer.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

True Fitness Group as lessee

Assets held under finance leases are recognised as assets of True Fitness Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a liability and release as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

For the purposes of presenting the Historical Financial Information of True Fitness Group, the assets and liabilities of True Fitness Group are translated into the presentation currency of True Fitness Group (i.e. HKD) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year/period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are recognised in profit or loss.

Employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit or loss as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible. True Fitness Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information of True Fitness Group and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary difference. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the True Fitness Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the True Fitness Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Plant and equipment

Plant and equipment including assets for use in the production or supply of goods or services, or for administrative purposes other than assets in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Assets in progress includes plant and equipment in the course of construction for production or for its own use purposes. Assets in progress is carried at cost less any recognised impairment loss. Assets in progress is classified to the appropriate category of plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Depreciation is recognised so as to write off the cost of assets, other than assets in progress, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment on assets

At the end of the reporting period, True Fitness Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, True Fitness Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as immediately in profit or loss.

Government grants

Government grants are not recognised until there is reasonable assurance that True Fitness Group will comply with the conditions attaching to them and that the grants will be received. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to True Fitness Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Provisions

Provisions are recognised when True Fitness Group has a present obligation (legal or constructive) as a result of a past event, it is probable that True Fitness Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provision of reinstatement cost

A provision for reinstatement cost is made for the estimated costs of dismantlement, removal or restoration of plant and equipment arising from the acquisition or use of assets, which are capitalised and included in the cost of plant and equipment.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

True Fitness Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits, amounts due from related parties and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. The accounting policy on impairment loss of financial assets is set out below.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include True Fitness Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When the trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by True Fitness are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Financial liabilities

Financial liabilities, including other payables, amounts due to related parties and bank and other borrowings, are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by True Fitness Group are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition

True Fitness Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the consideration received and receivable is recognised in profit or loss.

True Fitness Group derecognises financial liabilities when, and only when, True Fitness Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. Key sources of estimation uncertainty

In the application of True Fitness Group's accounting policies, which are described in note 4, the director of True Fitness is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and the future periods if the revision affects both current and future periods.

The following is the key assumption concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that has a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months from the end of each reporting period.

Impairment of plant and equipment

Plant and equipment are carried at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The review comprises a comparison of the carrying amount and recoverable amount of the plant and equipment. Where the actual future cash flows or fair value less costs of disposal are less than expected, or unfavourable changes in facts and circumstances which result in downward revision of the estimated future cash flows for the purpose of determining the value in use, impairment loss may arise. As at 31 December 2014, 2015 and 2016 and 31 May 2017, the carrying amounts of plant and equipment are HK\$79,186,000, HK\$59,504,000, HK\$56,443,000 and HK\$60,289,000, respectively.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

6. Revenue and segment information

	For the year ended			For the five months ended	
	31 December			31 May	
	2014	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Service revenue:				(unaudited)	
– Membership fees	150,395	129,439	116,547	49,325	48,909
– Personal training classes fee	71,708	72,184	84,796	33,567	40,853
– Trial classes fees	16,779	16,581	17,174	7,235	7,679
Registration and processing fees	30,476	28,628	31,395	11,120	12,569
Sales of merchandise	4,953	5,954	7,603	2,684	3,108
	<u>274,311</u>	<u>252,786</u>	<u>257,515</u>	<u>103,931</u>	<u>113,118</u>

True Fitness Group derives all its revenue from the provision of fitness related goods and services in Singapore. The chief operating decision maker, being the management of True Fitness Group, monitors the revenue, results, assets and liabilities of the business as a whole based on the management accounts prepared in accordance with SFRS issued by the Accounting Standards Council which are substantially in conformity with HKFRSs, and considers the assets and liabilities of the business, which included all assets and liabilities as stated in the consolidated statements of financial position, and considers the revenue and results of the business which represented revenue and profit for the year/period as stated in the consolidated statements of profit or loss and other comprehensive income.

Based on the above, the management of True Fitness Group has determined that, on the basis of the information used by the chief operating decision maker for the purposes of resources allocation and performance evaluation, the entire True Fitness Group is a single operating and reportable segment.

Furthermore, as all the non-current assets of True Fitness Group are physically located in Singapore and all revenue are derived from Singapore based on location of operation of the relevant group entities, no geographical information is presented.

There is no revenue from any single external customers that contributed over 10% of the total revenue of True Fitness Group throughout the Relevant Period.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

7. Other income

	For the year ended			For the five months ended	
	31 December			31 May	
	2014	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Interest income from:					
– Bank	11	15	16	6	13
– Related parties	4,193	5,471	230	97	73
– Others	–	15	13	–	6
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	4,204	5,501	259	103	92
Government grants	2,833	2,191	3,676	3,038	1,227
Sundry income	680	556	1,153	1,072	742
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>7,717</u>	<u>8,248</u>	<u>5,088</u>	<u>4,213</u>	<u>2,061</u>

8. Other gains and losses

	For the year ended			For the five months ended	
	31 December			31 May	
	2014	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Allowance for bad and doubtful debts	1,634	902	653	–	–
Loss on disposal of plant and equipment	133	31	32	32	1
Written off on plant and equipment	782	916	93	83	544
Net exchange loss(gain)	48	964	24	(7)	368
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>2,597</u>	<u>2,813</u>	<u>802</u>	<u>108</u>	<u>913</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

9. Finance costs

	For the year ended 31 December			For the five months ended 31 May	
	2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2016 <i>HK\$'000</i> (unaudited)	2017 <i>HK\$'000</i>
Interest expenses on:					
– Bank and other borrowings	812	624	219	120	45
– Obligations under finance leases	191	267	195	104	46
– Amount due to immediate holding company	–	275	1,264	528	420
– Amount due to a related party	202	90	–	–	–
	<u>1,205</u>	<u>1,256</u>	<u>1,678</u>	<u>752</u>	<u>511</u>

10. Income tax expense

	For the year ended 31 December			For the five months ended 31 May	
	2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2016 <i>HK\$'000</i> (unaudited)	2017 <i>HK\$'000</i>
Current tax – Singapore Corporate Tax	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

Singapore Corporate Tax is calculated at 17% of the estimated assessable profits for the Relevant Period. No provision from Singapore Corporate Tax has been made in the Historical Financial Information of True Fitness Group as the assessable income of True Fitness Group is set off by the losses of the transferor, True Yoga Pte. Ltd., within the same group under the Group Relief System issued by Inland Revenue Authority of Singapore.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The tax charge for the Relevant Period can be reconciled to the profit before tax as follows:

	For the year ended			For the five months ended	
	31 December		2016 <i>HK\$'000</i>	31 May	
	2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>		2016 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Profit before tax	<u>13,177</u>	<u>9,028</u>	<u>432</u>	<u>11,233</u>	<u>4,958</u>
Tax at the domestic income tax rate of 17%	2,240	1,535	73	1,910	843
Tax effect of expenses not deductible for tax purposes	2,629	1,811	5,720	826	828
Tax effect of income not taxable for tax purposes	(790)	(941)	(73)	-	(221)
Tax effect of deductible temporary difference not recognised	622	-	-	-	422
Utilisation of deductible temporary difference previously not recognised	-	(380)	(2,950)	(1,352)	-
Tax effect of tax incentives	(163)	(138)	(145)	(69)	(64)
Group tax relief transferred and utilised	<u>(4,538)</u>	<u>(1,887)</u>	<u>(2,625)</u>	<u>(1,315)</u>	<u>(1,808)</u>
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Tax incentives are granted under the Productivity and Innovation Credit Scheme (“PIC”) by Inland Revenue Authority of Singapore. PIC grants to those businesses which have invested in productivity and innovation activities covered under PIC, enhanced deductions and/or allowance up to a certain cap of qualifying expenditure incurred.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

11. Profit for the year/period

	For the year ended 31 December			For the five months ended 31 May	
	2014	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i>
Profit for the year/period has been arrived at after charging:					
Auditor's remuneration	290	348	345	178	219
Staff costs (including directors' emoluments)					
Salaries and other costs	99,553	97,206	99,530	40,392	45,061
Contribution to defined contribution plans	<u>6,914</u>	<u>7,337</u>	<u>7,956</u>	<u>3,432</u>	<u>3,267</u>
	<u><u>106,467</u></u>	<u><u>104,543</u></u>	<u><u>107,486</u></u>	<u><u>43,824</u></u>	<u><u>48,328</u></u>

11A. Emoluments of director and employees

	For the year ended 31 December 2014			
	Director's fees <i>HK\$'000</i>	Salaries/ service fee and other benefits <i>HK\$'000</i>	Retirement benefits scheme contributions <i>HK\$'000</i>	Total emoluments <i>HK\$'000</i>
Director				
Mr. Patrick John	-	-	-	-
Wee Ewe Seng	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	For the year ended 31 December 2015			
	Director's fees <i>HK\$'000</i>	Salaries/ service fee and other benefits <i>HK\$'000</i>	Retirement benefits scheme contributions <i>HK\$'000</i>	Total emoluments <i>HK\$'000</i>
Director				
Mr. Patrick John	-	-	-	-
Wee Ewe Seng	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

For the year ended 31 December 2016

	Salaries/ service fee and other benefits	Retirement benefits scheme contributions	Total emoluments
Director's fees	HK\$'000	HK\$'000	HK\$'000
Director	-	-	-
Mr. Patrick John	-	-	-
Wee Ewe Seng	-	-	-
	<u> </u>	<u> </u>	<u> </u>

For the five months ended 31 May 2016 (unaudited)

	Salaries/ service fee and other benefits	Retirement benefits scheme contributions	Total emoluments
Director's fees	HK\$'000	HK\$'000	HK\$'000
Director	-	-	-
Mr. Patrick John	-	-	-
Wee Ewe Seng	-	-	-
	<u> </u>	<u> </u>	<u> </u>

For the five months ended 31 May 2017

	Salaries/ service fee and other benefits	Retirement benefits scheme contributions	Total emoluments
Director's fees	HK\$'000	HK\$'000	HK\$'000
Director	-	-	-
Mr. Patrick John	-	-	-
Wee Ewe Seng	-	-	-
	<u> </u>	<u> </u>	<u> </u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Employees

The five highest paid individuals for the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017 do not include the director of True Fitness, details of whose remunerations are set out follows:

	For the year ended 31 December			For the five months ended 31 May	
	2014	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i>
Salaries and allowances	1,547	1,497	1,535	774	770
Performance related incentive payments (<i>Note</i>)	9	37	-	-	-
Retirement benefits scheme contributions	<u>103</u>	<u>102</u>	<u>101</u>	<u>51</u>	<u>51</u>
	<u><u>1,659</u></u>	<u><u>1,636</u></u>	<u><u>1,636</u></u>	<u><u>825</u></u>	<u><u>821</u></u>

Note: The performance related incentive payments are determined based on the performance of the individuals.

The number of these highest paid individuals, whose emolument fell within the following bands is as follows:

	For the year ended 31 December			For the five months ended 31 May	
	2014	2015	2016	2016	2017
	<i>(unaudited)</i>				
Nil to HK\$1,000,000	<u><u>5</u></u>	<u><u>5</u></u>	<u><u>5</u></u>	<u><u>5</u></u>	<u><u>5</u></u>

No emoluments were paid by True Fitness Group to the director of True Fitness or the five highest paid individuals (including director and employees) as an inducement to join or upon joining True Fitness Group or as compensation for loss of office for the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017. The director of True Fitness did not waive nor agree to waive any emoluments for the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017.

12. Dividends

No dividend was paid or proposed to the shareholders of True Fitness during the Relevant Period.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

13. Earnings per share

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

14. Plant and equipment

	Fitness equipment HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Leasehold improvement HK\$'000	Furniture, fixtures and office equipment HK\$'000	Assets in progress HK\$'000	Total HK\$'000
COST							
At 1 January 2014	37,267	1,165	1,553	86,226	11,481	552	138,244
Effect on exchange adjustments	(1,571)	(51)	(64)	(3,635)	(472)	(16)	(5,809)
Additions	3,636	122	–	7,840	1,240	421	13,259
Disposals/written off	(2,437)	(123)	–	(4,972)	(1,549)	–	(9,081)
Disposal to related parties	–	(7)	–	–	–	–	(7)
Reclassification	38	86	–	–	430	(554)	–
At 31 December 2014	36,933	1,192	1,489	85,459	11,130	403	136,606
Effect on exchange adjustments	(2,877)	(100)	(109)	(4,667)	(667)	(15)	(8,435)
Additions	1,468	255	536	–	37	–	2,296
Disposals/written off	(6,782)	–	(223)	(9,676)	(1,961)	–	(18,642)
Purchase from related parties	–	2	–	–	–	–	2
Disposal to related parties	(591)	–	–	–	(36)	–	(627)
Reclassification	–	331	–	–	–	(331)	–
At 31 December 2015	28,151	1,680	1,693	71,116	8,503	57	111,200
Effect on exchange adjustments	(722)	(40)	(39)	(1,979)	(202)	(7)	(2,989)
Additions	45	10	–	7,149	272	4,932	12,408
Disposals/written off	(552)	(18)	–	(140)	(46)	–	(756)
Purchase from related parties	231	14	–	–	–	–	245
Disposal to related parties	–	–	–	–	(83)	–	(83)
Reclassification	582	18	–	2,000	211	(2,811)	–
At 31 December 2016	27,735	1,664	1,654	78,146	8,655	2,171	120,025
Effect on exchange adjustments	1,519	116	75	3,483	386	196	5,775
Additions	66	6	–	766	95	7,671	8,604
Disposals/written off	–	(20)	–	(1,078)	(142)	–	(1,240)
Disposal to related parties	(57)	–	–	–	–	–	(57)
Reclassification	166	–	–	96	46	(308)	–
At 31 May 2017	29,429	1,766	1,729	81,413	9,040	9,730	133,107

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

	Fitness equipment HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Leasehold improvement HK\$'000	Furniture, fixtures and office equipment HK\$'000	Assets in progress HK\$'000	Total HK\$'000
DEPRECIATION							
At 1 January 2014	17,116	442	521	25,919	7,138	–	51,136
Effect on exchange adjustments	(791)	(27)	(30)	(1,348)	(280)	–	(2,476)
Provided for the year	4,388	315	188	10,829	1,083	–	16,803
Eliminated on disposals/ written off	(2,289)	(123)	–	(4,332)	(1,298)	–	(8,042)
Eliminated on disposal to related parties	–	(1)	–	–	–	–	(1)
At 31 December 2014	18,424	606	679	31,068	6,643	–	57,420
Effect on exchange adjustments	(1,153)	(51)	(45)	(2,068)	(408)	–	(3,725)
Provided for the year	4,425	309	238	10,093	900	–	15,965
Eliminated on disposals/ written off	(5,896)	–	(223)	(9,676)	(1,754)	–	(17,549)
Eliminated on disposal to related parties	(391)	–	–	–	(24)	–	(415)
At 31 December 2015	15,409	864	649	29,417	5,357	–	51,696
Effect on exchange adjustments	(477)	(19)	(26)	(1,110)	(146)	–	(1,778)
Provided for the year	3,077	426	248	9,887	717	–	14,355
Eliminated on disposals/ written off	(503)	(18)	–	(59)	(36)	–	(616)
Eliminated on disposal to related parties	–	–	–	–	(75)	–	(75)
At 31 December 2016	17,506	1,253	871	38,135	5,817	–	63,582
Effect on exchange adjustments	1,166	98	40	1,700	258	–	3,262
Provided for the period	1,400	113	103	4,708	313	–	6,637
Eliminated on disposals/ written off	–	(9)	–	(545)	(62)	–	(616)
Eliminated on disposal to related parties	(47)	–	–	–	–	–	(47)
At 31 May 2017	20,025	1,455	1,014	43,998	6,326	–	72,818
CARRYING VALUES							
At 31 December 2014	<u>18,509</u>	<u>586</u>	<u>810</u>	<u>54,391</u>	<u>4,487</u>	<u>403</u>	<u>79,186</u>
At 31 December 2015	<u>12,742</u>	<u>816</u>	<u>1,044</u>	<u>41,699</u>	<u>3,146</u>	<u>57</u>	<u>59,504</u>
At 31 December 2016	<u>10,229</u>	<u>411</u>	<u>783</u>	<u>40,011</u>	<u>2,838</u>	<u>2,171</u>	<u>56,443</u>
At 31 May 2017	<u>9,404</u>	<u>311</u>	<u>715</u>	<u>37,415</u>	<u>2,714</u>	<u>9,730</u>	<u>60,289</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Fitness equipment	7 years
Computer equipment	3 years
Motor vehicles	7 years
Leasehold improvements	7 years
Furniture, fixtures and office equipment	7 years

The following are the carrying amount of plant and equipment which are held under finance leases:

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fitness equipment	5,192	6,463	2,134	4,749
Motor vehicles	<u>810</u>	<u>1,044</u>	<u>783</u>	<u>716</u>
	<u><u>6,002</u></u>	<u><u>7,507</u></u>	<u><u>2,917</u></u>	<u><u>5,465</u></u>

15. Pledged bank deposits and bank balances and cash

As at 31 December 2014, 2015 and 2016 and 31 May 2017, bank balances carry interest at prevailing market rates which range from 0.05% to 0.48%, 0.05% to 0.83%, 0.05% to 1.3% and 0.05% to 1.3% per annum, respectively.

Pledged bank deposits represent deposits pledged to banks to secure non-current bank and other borrowings granted to True Fitness Group and, accordingly, they are classified as non-current assets.

As at 31 December 2014, 2015 and 2016 and 31 May 2017, the pledged bank deposits carry fixed interest rates ranging from 0.05% to 0.48%, 0.05% to 0.83%, 0.05% to 0.35% and 0.05% to 0.35% per annum, respectively.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

16. Amounts due from (to) related parties

The amounts due from related parties are detailed as follows:

	Maximum balances outstanding								
	As at				As at				For the
	1 January	As at 31 December			31 May	For the year ended 31 December			five months
	2014	2014	2015	2016	2017	2014	2015	2016	ended
HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	31 May
True Yoga Pte. Ltd. (i)	95,369	130,957	152,616	193,864	214,192	130,957	152,616	193,864	214,192
CJ Group Pte. Ltd. (ii)	20,367	20,085	25,537	25,868	-	20,367	25,537	25,868	25,868
True Spa Co., Ltd. (ii)	4,221	5,816	5,651	-	-	5,816	5,816	5,651	-
True Yoga Co., Ltd. (ii)	1,788	1,715	1,602	-	-	1,788	1,715	1,602	-
True Fitness Sdn Bhd (ii)	184	1,068	6,843	29	-	1,068	6,843	6,843	29
True Haven Sdn Bhd (ii)	220	211	197	-	-	220	211	197	-
True Fitness World Co., Ltd. (ii)	152	146	136	-	-	152	146	136	-
True Fitness Ltd. (ii)	920	742	1,270	9	-	920	1,270	1,270	-
	<u>123,221</u>	<u>160,740</u>	<u>193,852</u>	<u>219,770</u>	<u>214,192</u>				
Less: Amounts due within one year shown under current assets	<u>(27,852)</u>	<u>(29,783)</u>	<u>(41,236)</u>	<u>(219,770)</u>	<u>(214,192)</u>				
Amount due after one year and shown under non-current assets	<u>95,369</u>	<u>130,957</u>	<u>152,616</u>	<u>-</u>	<u>-</u>				

(i) As at 31 December 2014, 2015 and 2016, the entity was under control of Mr. Patrick John Wee Ewe Seng. As at 31 May 2017, the entity was under control of Tongfang.

(ii) The entities were under control of Mr. Patrick John Wee Ewe Seng.

Amount due from True Yoga Pte. Ltd. included a loan to it amounted to nil, SGD1,000,000, SGD1,000,000 and SGD1,000,000 (equivalent to nil, HK\$5,510,000, HK\$5,360,000 and HK\$5,635,000) as at 31 December 2014, 2015 and 2016 and 31 May 2017, respectively, which is unsecured, interest bearing at fixed rate of 4% per annum and repayable on demand. The remaining portion of amount due from True Yoga Pte. Ltd. was measured at the imputed interest rate of 5.40%, 5.35%, 5.35%, 5.35% (unaudited) and 5.35% for the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017, respectively, at the time of initial recognition. The remaining portion of amounts due from related parties are unsecured, interest-free and repayable on demand.

Amounts due to related parties, which are entities under control of Mr. Patrick John Wee Ewe Seng, included a loan from a related party amounted to SGD416,493 (equivalent to HK\$2,457,000) as at 31 December 2014, which is unsecured, interest bearing at fixed rate of 4% per annum and repayable on demand. Amounts due to related parties also included a loan from immediate holding company amounted to nil, SGD5,492,430, SGD5,492,430 and nil (equivalent to nil, HK\$30,263,000, HK\$29,604,000 and nil) as at 31 December 2014, 2015 and 2016 and 31 May 2017, respectively, which is unsecured, interest bearing at fixed rate of 4% per annum and repayable on demand. The remaining portion of amounts due to related parties under control of Mr. Patrick John Wee Ewe Seng of HK\$422,000, HK\$1,000, HK\$387,000 and HK\$174,000, as at 31 December 2014, 2015 and 2016 and 31 May 2017, respectively, are unsecured, interest-free and repayable on demand.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

17. Trade and other receivables

	As at 31 December			As at
	2014	2015	2016	31 May
	HK\$'000	HK\$'000	HK\$'000	2017
Trade receivables	3,412	1,989	1,930	1,388
Other receivables				
– Other receivables	–	70	2	–
– Deposits	697	2,656	649	543
– Prepayments	<u>1,648</u>	<u>1,482</u>	<u>2,758</u>	<u>2,466</u>
Total trade and other receivables	<u>5,757</u>	<u>6,197</u>	<u>5,339</u>	<u>4,397</u>

True Fitness Group individually assesses its customer's receivables accounts for any impairment. Based on transaction date, all trade receivables are aged within 30 days of credit period as at 31 December 2014, 2015 and 2016 and 31 May 2017 and they are neither past due nor impaired and considered to have good credit quality. True Fitness Group does not hold any collateral over these balances.

	As at 31 December			As at
	2014	2015	2016	31 May
	HK\$'000	HK\$'000	HK\$'000	2017
0 to 30 days	<u>3,412</u>	<u>1,989</u>	<u>1,930</u>	<u>1,388</u>

The carrying amount of trade receivables is after netting off the following impairment allowances:

	As at 31 December			As at
	2014	2015	2016	31 May
	HK\$'000	HK\$'000	HK\$'000	2017
Balance at beginning of the year/period	–	–	–	–
Impairment losses recognised				
on receivables	1,634	902	653	–
Amounts written off as uncollectible	<u>(1,634)</u>	<u>(902)</u>	<u>(653)</u>	<u>–</u>
Balance at end of the year/period	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

During the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017, trade receivables with an aggregate balance of HK\$1,634,000, HK\$902,000, HK\$653,000, nil (unaudited) and nil, respectively, was individually assessed impaired after considering the subsequent settlements and aging analysis of trade receivables. Full impairment losses are recognised once the trade receivables are aged over 60 days from the transaction date. The accumulated impairment losses would be written off after reassessment of the recoverability of the trade receivables and upon management approval. True Fitness Group does not hold any collateral over these balances.

18. Other payables and accruals

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accrued expenses	13,052	8,458	8,177	9,865
Rental payable	15,836	11,105	5,486	6,699
Payable for acquisition of plant and equipment	8,452	4,615	1,887	3,368
Other payables	<u>16,490</u>	<u>11,398</u>	<u>9,095</u>	<u>9,130</u>
Total other payables	<u><u>53,830</u></u>	<u><u>35,576</u></u>	<u><u>24,645</u></u>	<u><u>29,062</u></u>

19. Obligations under finance leases

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed for reporting purposes as:				
Current liabilities	1,982	3,352	2,056	2,513
Non-current liabilities	<u>2,011</u>	<u>2,912</u>	<u>807</u>	<u>1,967</u>
	<u><u>3,993</u></u>	<u><u>6,264</u></u>	<u><u>2,863</u></u>	<u><u>4,480</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

True Fitness Group leases certain of its fitness equipment and motor vehicles under finance leases. The range of lease term is between 3 years to 7 years for the Relevant Period. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 3.66% to 10.04%, 3.66% to 7.90%, 3.57% to 7.50%, 3.57% to 7.50% (unaudited) and 3.57% to 7.50% per annum for the year ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017.

	Minimum lease payments				Present value of minimum lease payments			
	As at 31 December		As at 31 May		As at 31 December		As at 31 May	
	2014	2015	2016	2017	2014	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Obligations under finance leases payable:								
Within one year	2,157	3,629	2,191	2,620	1,982	3,352	2,056	2,513
Within a period of more than one year but not more than two years	1,654	2,223	521	1,201	1,525	2,088	486	1,110
Within a period of more than two years but not more than five years	509	804	352	952	486	738	309	857
Within a period of more than five years	–	103	14	–	–	86	12	–
	<u>4,320</u>	<u>6,759</u>	<u>3,078</u>	<u>4,773</u>	<u>3,993</u>	<u>6,264</u>	<u>2,863</u>	<u>4,480</u>
Less: future finance charges	<u>(327)</u>	<u>(495)</u>	<u>(215)</u>	<u>(293)</u>				
Present value of lease obligations	<u>3,993</u>	<u>6,264</u>	<u>2,863</u>	<u>4,480</u>				
Less: Amount due for settlement within 12 months (shown under current liabilities)					<u>(1,982)</u>	<u>(3,352)</u>	<u>(2,056)</u>	<u>(2,513)</u>
Amount due for settlement after 12 months					<u>2,011</u>	<u>2,912</u>	<u>807</u>	<u>1,967</u>

True Fitness Group's obligations under finance leases are secured by the lessors' title to the leased assets.

20. Bank and other borrowings

	As at 31 December			As at 31 May
	2014	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank borrowings	534	354	543	510
Other borrowings	<u>8,923</u>	<u>5,246</u>	<u>797</u>	<u>3,012</u>
	<u>9,457</u>	<u>5,600</u>	<u>1,340</u>	<u>3,522</u>
	As at 31 December			As at 31 May
	2014	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Secured	9,457	5,600	1,340	2,590
Unsecured	<u>–</u>	<u>–</u>	<u>–</u>	<u>932</u>
	<u>9,457</u>	<u>5,600</u>	<u>1,340</u>	<u>3,522</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The maturity profile of the above bank and other borrowings is as follows:

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
The carrying amount of bank and other borrowings are repayable as follows:				
Within one year	5,523	5,006	933	3,161
More than one year but not exceeding two years	<u>3,934</u>	<u>594</u>	<u>407</u>	<u>361</u>
	9,457	5,600	1,340	3,522
Less: Amounts due within one year and shown under current liabilities	<u>(5,523)</u>	<u>(5,006)</u>	<u>(933)</u>	<u>(3,161)</u>
Amounts due after one year and shown under non-current liabilities	<u><u>3,934</u></u>	<u><u>594</u></u>	<u><u>407</u></u>	<u><u>361</u></u>

Details of the assets of True Fitness Group pledged to secure bank and other borrowings are set out in Note 30.

The exposures of True Fitness Group's fixed-rate and variable-rate bank and other borrowings are as follows:

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
Fixed-rate borrowings repayable:				
Within one year	2,516	574	541	571
More than one year but not exceeding two years	379	193	407	361
Variable-rate borrowings repayable:				
Within one year	3,007	4,432	392	2,590
More than one year but not exceeding two years	<u>3,555</u>	<u>401</u>	<u>–</u>	<u>–</u>
	<u><u>9,457</u></u>	<u><u>5,600</u></u>	<u><u>1,340</u></u>	<u><u>3,522</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The ranges of effective interest rates (which are also equal to contracted interest rates) of True Fitness Group's bank and other borrowings are as follows:

	As at 31 December			As at
	2014	2015	2016	31 May 2017
Effective interest rate:				
Fixed-rate borrowings	3.57%-10%	3.57%-10%	3.57%-10%	10%
Variable-rate borrowings	8.35%	8.35%	8.35%	8.35%

21. Provision for financial guarantee

Throughout the Relevant Period, True Fitness Group granted a financial guarantee to a third party in respect of loan facilities amounting to THB100,000,000 and the accrued interest granted to an entity under control of Mr. Patrick John Wee Ewe Seng. As at 31 December 2016 and 31 May 2017, loan and interest amount of THB101,524,000 (equivalent of HK\$21,823,000) and THB107,609,000 (equivalent of HK\$24,565,000), respectively, is outstanding. Management of True Fitness Group has determined that the related party of True Fitness Group, as the borrower, is not financially capable of repaying the loan and, accordingly, a provision of the guarantee amount has been recognised by True Fitness Group.

	<i>HK\$'000</i>
At 1 January 2014, 31 December 2014 and 2015	–
Effect on exchange adjustments	(1,093)
Additional provision	<u>22,916</u>
At 31 December 2016	21,823
Effect on exchange adjustment	972
Additional provision	<u>1,770</u>
At 31 May 2017	<u><u>24,565</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

22. Provision of reinstatement cost

	<i>HK\$'000</i>
At 1 January 2014	10,810
Effect on exchange adjustments	<u>(439)</u>
At 31 December 2014	10,371
Effect on exchange adjustments	(666)
Reversal of provision	(286)
Utilisation of provision	<u>(263)</u>
At 31 December 2015	9,156
Effect on exchange adjustments	(440)
Additional provision	5,095
Utilisation of provision	<u>(57)</u>
At 31 December 2016	13,754
Effect on exchange adjustments	612
Additional provision	683
Utilisation of provision	<u>(136)</u>
At 31 May 2017	<u><u>14,913</u></u>

Under the terms of the rental agreements signed with landlords, True Fitness Group shall remove and re-instate the rented premises upon expiry of the relevant rental agreements. Provision is therefore made for the best estimate based on the lease term ranging from one to five years.

23. Share capital

	Authorised as at 1 January 2014, 31 December 2014, 2015 and 2016 and 31 May 2017	Issued and fully paid as at 1 January 2014, 31 December 2014, 2015 and 2016 and 31 May 2017
Number of ordinary shares of SGD1 each	<u>SGD4,424,000</u>	<u>SGD4,424,000</u>
Shown in the Historical Financial Information of True Fitness Group		<u>HK\$23,378,000</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

24. Deferred taxation

As at 31 December 2014, 2015 and 2016 and 31 May 2017, True Fitness Group has deductible temporary differences in relation to accelerated accounting depreciation of HK\$40,680,000, HK\$38,445,000, HK\$21,092,000 and HK\$23,574,000, respectively. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

25. Operating leases

True Fitness Group as lessee

True Fitness Group recognised minimum lease payments in respect of its fitness premises amounting to approximately HK\$77,744,000, HK\$72,099,000, HK\$62,609,000, HK\$24,317,000 (unaudited) and HK\$29,263,000 during the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017 respectively.

At the end of each of the reporting period, True Fitness Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
Within one year	76,036	58,762	60,827	75,104
In the second to fifth years inclusive	88,932	37,543	129,598	148,815
	164,968	96,305	190,425	223,919

Operating lease payments represent rentals payable by the True Fitness Group for fitness premises. These leases are negotiated for terms ranging from one to five years with fixed monthly rental.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

26. Related party disclosures

(i) Related party transactions

In addition to the transactions, balances and commitments disclosed elsewhere in the Historical Financial Information of True Fitness Group, True Fitness Group had entered into the following significant transactions during each of the Relevant Period:

Nature of transaction	For the year ended			For the	For the
	31 December			five	five
	2014	2015	2016	months	months
	HK\$'000	HK\$'000	HK\$'000	ended	ended
				31 May	31 May
				2016	2017
				HK\$'000	HK\$'000
				(unaudited)	
True Yoga Pte. Ltd. (a)					
Purchase of plant and equipment	-	-	17	-	-
Proceeds from disposal of plant and equipment	6	16	12	-	10
Interest income	-	45	230	97	73
Management fee expense	19,908	16,831	16,122	6,718	6,486
CJ Group Pte. Ltd.					
Interest expense	-	275	1,264	528	420
Other related parties (b)					
Purchase of plant and equipment	-	2	2	-	-
Proceeds from disposal of plant and equipment	-	194	-	-	-
Interest income	4,193	5,426	-	-	-
Interest expense	202	90	-	-	-

(a) For the years ended 31 December 2014, 2015 and 2016 and up to the date before the completion of the Acquisition, the entity was under control of Mr. Patrick John Wee Ewe Seng. From the completion date of the Acquisition of 29 May 2017, the entity was under control of Tongfang.

(b) Under control of Mr. Patrick John Wee Ewe Seng.

(ii) The director of True Fitness provides a personal guarantee to True Fitness Group's bank and other borrowings amounting to approximately SGD1,603,000, SGD1,016,000, SGD244,000 and SGD626,000 (equivalent to HK\$9,457,000, HK\$5,600,000, HK\$1,340,000 and HK\$3,522,000) as at 31 December 2014, 2015 and 2016 and 31 May 2017, respectively.

The director of True Fitness provides a personal guarantee to True Fitness Group's obligations under finance leases amounting to approximately SGD677,000, SGD1,137,000, SGD531,000 and SGD795,000 (equivalent to HK\$3,993,000, HK\$6,264,000, HK\$2,863,000 and HK\$4,480,000) as at 31 December 2014, 2015 and 2016 and 31 May 2017, respectively.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

(iii) Compensation of key management personnel

	For the year ended 31 December			For the five months ended 31 May	
	2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2016 <i>HK\$'000</i> (unaudited)	2017 <i>HK\$'000</i>
Salaries and allowances	1,547	1,497	1,535	774	770
Performance related incentive payments (<i>Note</i>)	9	37	-	-	-
Retirement benefits scheme contributions	103	102	101	51	51
	<u>1,659</u>	<u>1,636</u>	<u>1,636</u>	<u>825</u>	<u>821</u>

Note: The performance related incentive payments are determined based on the performance of the individuals.

27. Retirement benefit plan

True Fitness Group participates in a defined contribution scheme operated by Central Provident Fund Board in Singapore. The assets of the scheme are held separately from those of True Fitness Group, in funds under the control of trustees.

The total expenses recognised in profit or loss of HK\$6,914,000, HK\$7,337,000, HK\$7,956,000, HK\$3,432,000 (unaudited) and HK\$3,267,000 for the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017, respectively, represent contributions paid and payable to the plan by True Fitness Group at rates specified in the rules of the plan.

28. Capital risk management

The director of True Fitness manages the capital of True Fitness Group to ensure that entities in True Fitness Group are able to continue as a going concern while maximising the return to the owners of True Fitness through the optimisation of the debt and equity balance. True Fitness Group's overall strategy remains unchanged throughout the Relevant Period.

The capital structure consists of debts and equity attributable to owner of True Fitness, comprising issued share capital and retained profits.

The director of True Fitness reviews the capital structure on an annual basis. As part of this review, the director of True Fitness considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the director of True Fitness, True Fitness Group will balance its overall capital structure through the issuance of new share as well as the issuance of new debts or the redemption of existing debt.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

29. Financial instruments

Categories of financial instruments

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets				
Loans and receivables (including cash and cash equivalents)	172,804	203,916	228,218	224,772
Financial liabilities				
Amortised cost	53,114	62,982	47,799	22,893
Obligations under finance leases	3,993	6,264	2,863	4,480
Financial guarantee contract	–	–	21,823	24,565
	57,107	69,246	72,485	51,938

Financial risk management objectives and policies

The True Fitness Group's major financial instruments include rental deposits, trade and other receivables, pledged bank deposits, amounts due from (to) related parties, bank balances and cash, other payables, obligations under finance leases and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (mainly interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

Currency risk

True Fitness's exposure to currency risk mainly arises from the fluctuation of United States dollar ("USD") and Thai Baht ("THB") against the functional currencies of True Fitness. The carrying amounts of the foreign currency denominated monetary assets and liabilities other than the functional currencies of True Fitness are as follows. The management closely monitors foreign exchange exposure to mitigate the foreign currency risk.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

	Assets				Liability			
	As at 31 December		As at 31 May		As at 31 December			As at 31 May
	2014	2015	2016	2017	2014	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
USD	9,116	9,103	9,104	9,059	-	-	-	-
THB	-	-	-	-	-	-	21,824	24,800

Sensitivity analysis

The following table details True Fitness Group's sensitivity to a 5% increase in the functional currencies of the relevant group entities against the foreign currency. 5% is the sensitivity rate used in management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit after taxation where the functional currency of relevant group entities weakening against the relevant foreign currencies. For a 5% strengthen of the functional currency of relevant group entities, there would be an equal and opposite impact on the profit after taxation.

	For the year ended			For the five
	31 December			months ended
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Foreign currency</i>				
USD	378	378	378	376
THB	-	-	(906)	(1,029)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year/period end exposure does not reflect the exposure during the year/period.

Interest rate risk

True Fitness Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk. True Fitness Group's cash flow interest rate risk is mainly from bank balances and bank and other borrowings, and concentrated on the fluctuation of Singapore Interbank Offered Rates arising from the bank and other borrowings.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The sensitivity analysis below has been determined based on the exposure to interest rates on True Fitness Group's bank and other borrowings at the end of the each of the reporting period and prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year/period. A 50 basis points increase or decrease is used by management for the assessment of the reasonably possible change in interest rates.

If interest rates on bank and other borrowings had been 50 basis points higher/lower and all other variables were held constant, True Fitness Group's post-tax profit for the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2017 would decrease/increase by HK\$272,000, HK\$201,000, HK\$16,000 and HK\$45,000, respectively. This is mainly attributable to True Fitness Group's exposure to interest rates on its variable-rate bank and other borrowings.

The management considers the exposure of interest rate risk over bank balances is not significant. Accordingly, no sensitivity analysis is presented.

Credit risk

At the end of each reporting period, True Fitness Group's maximum exposure to credit risk which will cause a financial loss to True Fitness Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the recognised financial assets as stated in the consolidated statements of financial position and the amount of contingent liabilities in relation to financial guarantees granted by True Fitness Group as disclosed in note 21.

In order to minimise the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, True Fitness Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the director of True Fitness considers that True Fitness Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The director of True Fitness considers that the concentration of credit risk on trade receivables is limited due to True Fitness Group's diversified customers.

True Fitness Group has concentration risk on amounts due from related parties during the Relevant Period. True Fitness Group will monitor the level of exposure to ensure that follow up actions and/or corrective actions are taken promptly to lower the risk exposure. The director of True Fitness considers that the credit risk on amounts due from related parties and the financial guarantee granted to a third party (notes 16 and 21) are limited because he regularly monitors the financial position of the related parties through involvement in their management and operations as the related parties are under the control of the controlling shareholder of True Fitness.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the director of True Fitness, which has built an appropriate liquidity risk management framework for the management of True Fitness Group's short, medium and long-term funding and liquidity management requirements. True Fitness Group manages liquidity risk by maintaining adequate reserves and borrowing facilities.

The following tables detail True Fitness Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which True Fitness Group can be required to pay. The maturity dates for the non-derivative financial liabilities are based on the agreed repayment dates.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Liquidity and interest risk tables

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	3 to 6 months HK\$'000	6 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
At 31 December 2014							
Other payables	-	40,778	-	-	-	40,778	40,778
Amounts due to related parties							
- interest free	-	422	-	-	-	422	422
- fixed rate	4.00	2,457	-	-	-	2,457	2,457
Bank and other borrowings							
- fixed rate	7.50	73	736	1,930	422	3,161	2,895
- variable rate	8.35	573	1,147	1,720	3,730	7,170	6,562
Obligations under finance leases	8.19	973	569	615	2,163	4,320	3,993
Financial guarantee contract	-	20,772	-	-	-	20,772	-
		<u>66,048</u>	<u>2,452</u>	<u>4,265</u>	<u>6,315</u>	<u>79,080</u>	<u>57,107</u>
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2015							
Other payables	-	27,118	-	-	-	27,118	27,118
Amounts due to related parties							
- interest-free	-	1	-	-	-	1	1
- fixed rate	4.00	30,263	-	-	-	30,263	30,263
Bank and other borrowings							
- fixed rate	6.7	445	63	94	204	806	767
- variable rate	8.35	779	1,657	2,336	404	5,176	4,833
Obligations under finance leases	6.71	1,637	957	1,035	3,130	6,759	6,264
Financial guarantee contract	-	21,875	-	-	-	21,875	-
		<u>82,118</u>	<u>2,677</u>	<u>3,465</u>	<u>3,738</u>	<u>91,998</u>	<u>69,246</u>
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2016							
Other payables	-	16,468	-	-	-	16,468	16,468
Amounts due to related parties							
- interest-free	-	387	-	-	-	387	387
- fixed rate	4.00	29,604	-	-	-	29,604	29,604
Bank and other borrowings							
- fixed rate	6.7	434	106	92	462	1,094	948
- variable rate	8.35	395	-	-	-	395	392
Obligations under finance leases	7.12	988	579	624	887	3,078	2,863
Financial guarantee contract	-	21,823	-	-	-	21,823	21,823
		<u>70,099</u>	<u>685</u>	<u>716</u>	<u>1,349</u>	<u>72,849</u>	<u>72,485</u>
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	3 to 6 months HK\$'000	6 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
As at 31 May 2017							
Other payables	-	19,197	-	-	-	19,197	19,197
Amounts due to related parties							
- interest-free	-	174	-	-	-	174	174
Bank and other borrowings							
- fixed rate	10.00	455	64	96	402	1,017	932
- variable rate	8.35	492	982	1,228	-	2,702	2,590
Obligations under finance leases	7.23	1,182	691	747	2,153	4,773	4,480
Financial guarantee contract	-	24,565	-	-	-	24,565	24,565
		<u>46,065</u>	<u>1,737</u>	<u>2,071</u>	<u>2,555</u>	<u>52,428</u>	<u>51,938</u>

The amounts included above for variable interest rate instruments are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the Relevant Period.

Fair value

The director of True Fitness considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information of True Fitness Group approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

30. Pledge of assets

As at 31 December 2014, 2015 and 2016 and 31 May 2017, HK\$5,471,000, HK\$2,389,000, HK\$2,340,000 and HK\$2,162,000 bank deposits of True Fitness Group were pledged to secure bank and other borrowings granted to True Fitness Group, respectively.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

31. Particulars of subsidiary

Details of the subsidiary held by True Fitness during the Relevant Period and as at the date of this report are as follows:

Company name	Place and date of incorporation/ establishment	Registered capital/issued paid up capital	Attributable equity interest/voting right held by True Fitness Group				At date of report	Principal activities	Form of company
			At 31 December 2014	2015	2016	At 31 May 2017			
True Fitness (STC) Pte. Ltd.	Singapore 7 May 2002	SGD1,700,000	100	100	100	100	100	Provision of fitness and health training centres	Limited liability

The statutory financial statements of True Fitness (STC) Pte. Ltd. for each of the years ended 31 December 2014, 2015 and 2016 have been prepared in accordance with the provisions of the Companies Act, Chapter 50 and SFRS issued by the Accounting Standards Council and were audited by KPMG LLC in accordance with Singapore Standards on Auditing.

32. Note to the consolidated statements of cash flows

The table below details changes in True Fitness Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in True Fitness Group's consolidated statement of cash flows as cash flows from financing activities.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Reconciliation of liabilities arising from financial activities:

	Obligations under finance leases <i>HK\$'000</i>	Amounts due to related parties <i>HK\$'000</i>	Bank and other borrowings <i>HK\$'000</i>	Total liabilities from financing activities <i>HK\$'000</i>
At 1 January 2014	6,316	2,819	18,246	27,381
Financing cash flows (<i>Note</i>)	(2,258)	(29)	(8,859)	(11,146)
Finance costs	191	202	812	1,205
Non-cash changes				
Foreign exchange movement	<u>(256)</u>	<u>(113)</u>	<u>(742)</u>	<u>(1,111)</u>
At 31 December 2014	3,993	2,879	9,457	16,329
Financing cash flows (<i>Note</i>)	(3,722)	27,887	(3,856)	20,309
Finance costs	267	365	624	1,256
Non-cash changes				
New finance leases	5,989	–	–	5,989
Foreign exchange movement	<u>(263)</u>	<u>(867)</u>	<u>(625)</u>	<u>(1,755)</u>
At 31 December 2015	6,264	30,264	5,600	42,128
Financing cash flows (<i>Note</i>)	(3,459)	(513)	(4,357)	(8,329)
Finance costs	195	1,264	219	1,678
Non-cash changes				
Foreign exchange movement	<u>(137)</u>	<u>(1,024)</u>	<u>(122)</u>	<u>(1,283)</u>
At 31 December 2016	2,863	29,991	1,340	34,194
Financing cash flows (<i>Note</i>)	(1,141)	(650)	2,137	346
Finance costs	46	420	45	511
Non-cash changes				
Waiver of loan from a related party	–	(30,922)	–	(30,922)
New finance leases	2,585	–	–	2,585
Foreign exchange movement	127	915	–	1,042
Others	<u>–</u>	<u>420</u>	<u>–</u>	<u>420</u>
At 31 May 2017	<u>4,480</u>	<u>174</u>	<u>3,522</u>	<u>8,176</u>
For the five months ended 31 May 2016 (unaudited)				
At 1 January 2016	6,264	30,264	5,600	42,128
Financing cash flows (<i>Note</i>)	(1,590)	(205)	(2,064)	(3,859)
Finance costs	104	528	120	752
Non-cash changes				
Foreign exchange movement	<u>77</u>	<u>1,226</u>	<u>233</u>	<u>1,536</u>
At 31 May 2016 (unaudited)	<u>4,855</u>	<u>31,813</u>	<u>3,889</u>	<u>40,557</u>

Note: The cash flows from obligations under finance leases, amounts due to related parties and bank and other borrowings make up the net amount of proceeds received and repayments made in the consolidated statements of cash flows.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

33. Major non-cash transaction

Save as disclosed elsewhere in the Historical Financial Information of True Fitness Group, True Fitness Group has the following major non-cash transactions during the Relevant Period:

During the five months ended 31 May 2017, pursuant to the agreement between True Fitness Group and its immediate holding company, CJ Group Pte. Ltd., True Fitness Group (i) waives the amount due from CJ Group Pte. Ltd. of HK\$32,217,000 and (ii) derecognises the loan from CJ Group Pte. Ltd. of SGD5,492,430 (equivalent to HK\$30,922,000). The net impact of HK\$1,295,000 is considered as deemed distribution to controlling party as both True Fitness Group and CJ Group Pte. Ltd. were under the control of Mr. Patrick John Wee Ewe Seng on date of the agreement.

During the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017, management fee expenses amounting to HK\$19,908,000, HK\$16,831,000, HK\$16,122,000, HK\$6,215,000 (unaudited) and HK\$6,486,000, respectively, has been settled through current account with a related party which was under the control of Mr. Patrick John Wee Ewe Seng.

The following is the text of a report set out on pages II-59 to II-110, received from the reporting accountants of Tongfang Kontafarma Holdings Limited, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte.

德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF TONGFANG KONTAFARMA HOLDINGS LIMITED

Introduction

We report on the historical financial information of True Yoga Pte. Ltd. (“True Yoga”) set out on pages II-63 to II-110, which comprises the statements of financial position as at 31 December 2014, 2015 and 2016 and 31 May 2017 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for each of the years then ended and the five months ended 31 May 2017 (the “Relevant Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information of True Yoga”). The Historical Financial Information of True Yoga set out on pages II-63 to II-110 forms an integral part of this report, which has been prepared for inclusion in the circular of Tongfang Kontafarma Holdings Limited (“Tongfang”) dated 28 July 2017 in connection with the acquisition of 51% shareholding of TFKT True Holdings and 29% shareholding of True Yoga Holdings Limited, of which True Yoga is an indirect wholly-owned subsidiary of TFKT True Holdings, by Fester Global Limited, an indirect wholly-owned subsidiary of Tongfang (the “Acquisition”) (the “Circular”).

Director’s responsibility for the Historical Financial Information of True Yoga

The director of True Yoga is responsible for the preparation of Historical Financial Information of True Yoga that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information of True Yoga, and for such internal control as the director of True Yoga determines is necessary to enable the preparation of Historical Financial Information of True Yoga that is free from material misstatement, whether due to fraud or error.

The directors of Tongfang are responsible for the contents of the Circular in which the Historical Financial Information of True Yoga is included and such information is prepared based on accounting policies materially consistent with those of Tongfang.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information of True Yoga and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information of True Yoga is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information of True Yoga. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information of True Yoga, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of Historical Financial Information of True Yoga that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information of True Yoga in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director of True Yoga, as well as evaluating the overall presentation of the Historical Financial Information of True Yoga.

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

Opinion

In our opinion, the Historical Financial Information of True Yoga gives, for the purposes of the accountants’ report, a true and fair view of True Yoga’s financial position as at 31 December 2014, 2015 and 2016 and 31 May 2017 and of True Yoga’s financial performance and cash flows for the Relevant Period in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information of True Yoga.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of True Yoga which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the five months ended 31 May 2016 and other explanatory information (the “Stub Period Comparative Financial Information of True Yoga”). The director of True Yoga is responsible for the preparation of the Stub Period Comparative Financial Information of True Yoga in accordance with the basis of preparation set out in note 2 to the Historical Financial Information of True Yoga. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information of True Yoga based on our review. We conducted our review 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 of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information of True Yoga, for the purposes of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the Historical Financial Information of True Yoga.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

The Historical Financial Information of True Yoga is stated after making such adjustments to the Historical and Underlying Financial Statements of True Yoga as defined on page II-63 as were considered necessary.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Dividends

We refer to note 11 to the Historical Financial Information of True Yoga which states that no dividends have been paid by True Yoga in respect of the Relevant Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 July 2017

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

HISTORICAL FINANCIAL INFORMATION OF TRUE YOGA

Preparation of Historical Financial Information

Set out below is the Historical Financial Information of True Yoga which forms an integral part of this accountants' report.

The Historical Financial Information of True Yoga in this report was prepared based on previously issued financial statements of True Yoga for the years ended 31 December 2014, 2015 and 2016 which have been prepared in accordance with the provisions of the Companies Act, Chapter 50 and Financial Reporting Standards in Singapore ("SFRS") issued by the Accounting Standards Council and were audited by KPMG LLC in accordance with Singapore Standards on Auditing. For the five months ended 31 May 2017, the director of True Yoga has prepared the financial statements of True Yoga in accordance with SFRS and we have audited the financial statements in accordance with Hong Kong Standards on Auditing issued by HKICPA. (collectively "Historical and Underlying Financial Statements of True Yoga").

The Historical Financial Information of True Yoga is presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the year ended 31 December			For the five months ended 31 May	
		2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
Revenue	5	58,235	52,277	41,508	19,832	13,245
Other income	6	21,090	17,856	18,249	7,990	7,597
Other gains and loss	7	(6,282)	(709)	(501)	(102)	1
Rental expenses		(25,933)	(24,002)	(15,673)	(8,350)	(5,281)
Staff costs		(62,519)	(57,316)	(48,968)	(22,304)	(19,697)
Depreciation of plant and equipment		(4,310)	(379)	(461)	(182)	(135)
Other expenses		<u>(15,091)</u>	<u>(12,744)</u>	<u>(9,550)</u>	<u>(4,469)</u>	<u>(2,974)</u>
Results from operating activities		(34,810)	(25,017)	(15,396)	(7,585)	(7,244)
Finance costs	8	<u>(37)</u>	<u>(79)</u>	<u>(264)</u>	<u>(111)</u>	<u>(85)</u>
Loss before tax		(34,847)	(25,096)	(15,660)	(7,696)	(7,329)
Income tax expense	9	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss for the year/period	10	<u>(34,847)</u>	<u>(25,096)</u>	<u>(15,660)</u>	<u>(7,696)</u>	<u>(7,329)</u>
Other comprehensive income (expense) for the year/period						
Item that will not be reclassified to profit or loss						
Exchange differences arising on translation to presentation currency		<u>8,693</u>	<u>14,176</u>	<u>5,366</u>	<u>(8,853)</u>	<u>(9,901)</u>
Total comprehensive expense for the year/period		<u>(26,154)</u>	<u>(10,920)</u>	<u>(10,294)</u>	<u>(16,549)</u>	<u>(17,230)</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December			As at
		2014	2015	2016	31 May
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Plant and equipment	13	1,338	760	202	152
Rental deposits		<u>6,523</u>	<u>6,892</u>	<u>3,782</u>	<u>3,559</u>
		<u>7,861</u>	<u>7,652</u>	<u>3,984</u>	<u>3,711</u>
Current assets					
Trade and other receivables	14	1,309	1,916	993	1,117
Amounts due from related parties	18	17,720	15,928	1,859	–
Bank balances and cash	15	<u>1,146</u>	<u>773</u>	<u>2,175</u>	<u>1,271</u>
		<u>20,175</u>	<u>18,617</u>	<u>5,027</u>	<u>2,388</u>
Current liabilities					
Other payables and accruals	16	16,987	12,676	6,784	7,249
Obligation under a finance lease	17	177	165	162	181
Deferred income		21,698	20,393	16,105	15,151
Amount due to immediate holding company	18	16,942	14,630	–	–
Amount due to a director	18	648	605	–	–
Amounts due to related parties	18	<u>148,629</u>	<u>167,409</u>	<u>193,872</u>	<u>214,192</u>
		<u>205,081</u>	<u>215,878</u>	<u>216,923</u>	<u>236,773</u>
Net current liabilities		<u>(184,906)</u>	<u>(197,261)</u>	<u>(211,896)</u>	<u>(234,385)</u>
Total assets less current liabilities		<u>(177,045)</u>	<u>(189,609)</u>	<u>(207,912)</u>	<u>(230,674)</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

	Notes	As at 31 December			As at
		2014	2015	2016	31 May
		HK\$'000	HK\$'000	HK\$'000	2017
					HK\$'000
Capital and reserves					
Share capital	19	455	455	455	455
Reserves		<u>(201,618)</u>	<u>(212,538)</u>	<u>(222,832)</u>	<u>(244,472)</u>
Total equity		<u>(201,163)</u>	<u>(212,083)</u>	<u>(222,377)</u>	<u>(244,017)</u>
Non-current liabilities					
Obligation under a finance lease	17	841	620	445	453
Provision of reinstatement cost	20	3,453	3,225	1,538	1,606
Deferred income		<u>19,824</u>	<u>18,629</u>	<u>12,482</u>	<u>11,284</u>
		<u>24,118</u>	<u>22,474</u>	<u>14,465</u>	<u>13,343</u>
		<u>(177,045)</u>	<u>(189,609)</u>	<u>(207,912)</u>	<u>(230,674)</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2014	455	(14,121)	-	(161,343)	(175,009)
Loss for the year	-	-	-	(34,847)	(34,847)
Other comprehensive income for the year					
– Exchange differences arising on translation to presentation currency	-	8,693	-	-	8,693
Total comprehensive income (expense) for the year	-	8,693	-	(34,847)	(26,154)
At 31 December 2014	455	(5,428)	-	(196,190)	(201,163)
Loss for the year	-	-	-	(25,096)	(25,096)
Other comprehensive income for the year					
– Exchange differences arising on translation to presentation currency	-	14,176	-	-	14,176
Total comprehensive income (expense) for the year	-	14,176	-	(25,096)	(10,920)
At 31 December 2015	455	8,748	-	(221,286)	(212,083)
Loss for the year	-	-	-	(15,660)	(15,660)
Other comprehensive income for the year					
– Exchange differences arising on translation to presentation currency	-	5,366	-	-	5,366
Total comprehensive income (expense) for the year	-	5,366	-	(15,660)	(10,294)

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

	Share capital <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2016	<u>455</u>	<u>14,114</u>	<u>-</u>	<u>(236,946)</u>	<u>(222,377)</u>
Loss for the period	-	-	-	(7,329)	(7,329)
Other comprehensive expense for the period					
– Exchange differences arising on translation to presentation currency	<u>-</u>	<u>(9,901)</u>	<u>-</u>	<u>-</u>	<u>(9,901)</u>
Total comprehensive expense from the period	-	(9,901)	-	(7,329)	(17,230)
Deemed distribution to controlling party resulting from waiver of amount due from a related party	<u>-</u>	<u>-</u>	<u>(4,410)</u>	<u>-</u>	<u>(4,410)</u>
At 31 May 2017	<u><u>455</u></u>	<u><u>4,213</u></u>	<u><u>(4,410)</u></u>	<u><u>(244,275)</u></u>	<u><u>(244,017)</u></u>
For the five months ended 31 May 2016 (unaudited)					
At 1 January 2016	<u>455</u>	<u>8,748</u>	<u>-</u>	<u>(221,286)</u>	<u>(212,083)</u>
Loss for the period	-	-	-	(7,696)	(7,696)
Other comprehensive expense for the period					
– Exchange differences arising on translation to presentation currency	<u>-</u>	<u>(8,853)</u>	<u>-</u>	<u>-</u>	<u>(8,853)</u>
Total comprehensive expense for the period	<u>-</u>	<u>(8,853)</u>	<u>-</u>	<u>(7,696)</u>	<u>(16,549)</u>
At 31 May 2016 (unaudited)	<u><u>455</u></u>	<u><u>(105)</u></u>	<u><u>-</u></u>	<u><u>(228,982)</u></u>	<u><u>(228,632)</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

STATEMENTS OF CASH FLOWS

	For the year ended			For the five months ended	
	31 December			31 May	
	2014	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Operating activities					
Loss before tax	(34,847)	(25,096)	(15,660)	(7,696)	(7,329)
Adjustments for:					
Depreciation of plant and equipment	4,310	379	461	182	135
Gain on disposal of plant and equipment	(47)	(6)	(4)	(4)	-
Allowance for (reversal of) bad and doubtful debts	269	270	(237)	-	-
Impairment loss on plant and equipment	6,063	439	630	-	-
Finance costs	37	79	264	111	85
Written off on plant and equipment	-	-	105	105	-
	-	-	105	105	-
Operating cash flows before movements in working capital	(24,215)	(23,935)	(14,441)	(7,302)	(7,109)
Decrease in amounts due to related parties	(19,908)	(16,831)	(16,122)	(6,215)	(6,486)
(Increase) decrease in rental deposits	(36)	(829)	3,108	3,053	391
(Increase) decrease in trade and other receivables	(201)	(989)	970	1,041	(80)
(Decrease) increase in other payables	(822)	(3,365)	(5,896)	(1,742)	163
(Decrease) increase in deferred income	(437)	253	(10,065)	(3,657)	(3,425)
Decrease in provision of reinstatement cost	-	-	(1,713)	(1,713)	(15)
	-	-	(1,713)	(1,713)	(15)
Net cash used in operating activities	(45,619)	(45,696)	(44,159)	(16,535)	(16,561)
Investing activities					
Purchase of plant and equipment	(862)	(294)	(677)	(310)	(78)
Repayments from related parties	16,728	19,468	14,490	14,150	3,097
Proceeds from disposal of plant and equipment	49	6	126	126	-
Advance to related parties	(16,432)	(18,825)	(80)	(43)	(5,565)
	-	-	-	-	-
Net cash (used in) from investing activities	(517)	355	13,859	13,923	(2,546)

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

	For the year ended			For the five months ended	
	31 December			31 May	
	2014	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Financing activities					
Advance from related parties	50,455	47,163	47,969	15,965	18,343
Repayment to immediate holding company	(3,996)	(1,835)	(15,028)	(13,641)	–
Repayment of finance lease	(185)	(171)	(170)	–	–
Interest paid	(37)	(79)	(264)	(111)	(85)
Repayment to a director	–	–	(622)	–	–
	<u>–</u>	<u>–</u>	<u>(622)</u>	<u>–</u>	<u>–</u>
Net cash from financing activities	<u>46,237</u>	<u>45,078</u>	<u>31,885</u>	<u>2,213</u>	<u>18,258</u>
Net increase (decrease) in cash and cash equivalents	101	(263)	1,585	(399)	(849)
Cash and cash equivalents at beginning of the year/period	1,254	1,146	773	773	2,175
Effect of foreign exchange rate changes	<u>(209)</u>	<u>(110)</u>	<u>(183)</u>	<u>(26)</u>	<u>(55)</u>
Cash and cash equivalents at end of the year/period, represented by bank balances and cash	<u><u>1,146</u></u>	<u><u>773</u></u>	<u><u>2,175</u></u>	<u><u>348</u></u>	<u><u>1,271</u></u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF TRUE YOGA**1. General information**

True Yoga was incorporated on 17 August 2004 in the Republic of Singapore. The address of the registered office and principal place of business is 8 Claymore Hill, #02-03, 8 on Claymore, Singapore, 229572. Its immediate holding company was CJ Group Pte. Ltd., a company incorporated in the Republic of Singapore. Prior to the completion of the Acquisition on 29 May 2017, its ultimate holding company was WCJ Holdings Ltd, a company incorporated in the Republic of Mauritius, and its ultimate controlling party was Mr. Patrick John Wee Ewe Seng. Upon the completion of the Acquisition, its ultimate holding company is 深圳市奧融信投資有限公司 (Shenzhen Aorongxin Investment Development Co., Ltd.), a company established under the laws of the PRC with limited liability.

True Yoga is principally engaged in the operation of fitness centres and the provision of consultation services for fitness and health activities.

The Historical Financial Information of True Yoga is presented in Hong Kong Dollars (HK\$) for the purpose of this Circular while the functional currency of True Yoga is Singapore Dollar (“SGD”).

2. Basis of preparation of the Historical Financial Information of True Yoga

The Historical Financial Information of True Yoga has been prepared based on the accounting policies set out in note 4 which conform with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The validity of the going concern assumption on which the Historical Financial Information of True Yoga is prepared depends on the continuing financial support from Tongfang who has agreed to provide all necessary financial support to True Yoga in its foreseeable future so as to maintain True Yoga’s ability to continue as a going concern.

3. Application of HKFRSs

For the purpose of preparing and presenting the Historical Financial Information of True Yoga for the Relevant Period, True Yoga has consistently adopted the HKFRSs issued by the HKICPA, which are effective for the accounting periods beginning on 1 January 2017, throughout the Relevant Period.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

New and amendments to HKFRSs and new interpretation in issue but not yet effective

True Yoga has not early applied the following new and amendments to HKFRSs and the new interpretation that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration ¹
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle except for amendments to HKFRS 12 ¹

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

HKFRS 9 “Financial Instruments”

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Key requirements of HKFRS 9 which are relevant to True Yoga are described as follows:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 “Financial Instruments: Recognition and Measurement”. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on True Yoga’s financial instruments and risk management policies as at 31 May 2017, upon application of HKFRS 9, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to True Yoga’s financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the director of True Yoga performs a detailed review.

HKFRS 15 “Revenue from Contracts with Customers”

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The director of True Yoga anticipates that the application of HKFRS 15 in the future may result in more disclosures, however, the director of True Yoga does not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, True Yoga currently presents operating lease payments as operating cash flows. Under HKFRS 16, lease payments in relation to lease liability will be allocated into a principle and an interest portion which will be presented as financing cash flows.

Under HKAS 17, True Yoga has already recognised an asset and a related finance lease liability for finance lease arrangement where True Yoga is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether True Yoga presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

As at 31 May 2017, True Yoga has non-cancellable operating lease commitments of HK\$17,400,000 as disclosed in note 22. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence True Yoga will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the director of True Yoga completes a detailed review.

Except as described above, the director of True Yoga considers that the application of the other amendments to HKFRSs and the new interpretation will have no material impact on the results and the financial position of True Yoga.

4. Significant Accounting Policies

The Historical Financial Information of True Yoga has been prepared on the historical cost basis. In addition, the Historical Financial Information of True Yoga includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, True Yoga takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information of True Yoga is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The significant accounting policies are set out below.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to True Yoga and when specific criteria have been met for each of True Yoga's activities, as described below.

Monthly fees received for membership are recognised as revenue on a straight-line basis over the service usage period. Instalments received in advance for prepaid packages are recorded as deferred income.

Revenue from trial classes is recognised when the trial class is provided.

Revenue from registration and processing fee is recognised when service package contract is entered with customer.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

True Yoga as lessee

Assets held under finance leases are recognised as assets of True Yoga at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a liability and release as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of True Yoga, transactions in currencies other than the functional currency of True Yoga (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Historical Financial Information of True Yoga, the assets and liabilities of True Yoga are translated into the presentation currency (i.e. HKD) at the rate of exchange prevailing at the end of the reporting period, and the income and expenses are translated at the average exchange rates for the year/period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are recognised in profit or loss.

Government grants

Government grants are not recognised until there is reasonable assurance that True Yoga will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to True Yoga with no future related costs are recognised in profit or loss in the period in which they become receivable.

Employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit or loss as reported in the statements of profit or loss and other comprehensive income because of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible. True Yoga's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information of True Yoga and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary difference. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which True Yoga expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Plant and equipment

Plant and equipment including assets for use in the production or supply of goods or services, or for administrative purposes other than assets in progress are stated in the statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Assets in progress includes plant and equipment in the course of construction for production or for its own use purposes. Assets in progress is carried at cost less any recognised impairment loss. Assets in progress is classified to the appropriate category of plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Depreciation is recognised so as to write off the cost of assets, other than assets in progress, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment on assets

At the end of the reporting period, True Yoga reviews the carrying amounts of its assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, True Yoga estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as immediately in profit or loss.

Provisions

Provisions are recognised when True Yoga has a present obligation (legal or constructive) as a result of a past event, it is probable that True Yoga will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provision of reinstatement cost

A provision for reinstatement cost is made for the estimated costs of dismantlement, removal or restoration of plant and equipment arising from the acquisition or use of assets, which are capitalised and included in the cost of plant and equipment.

Financial instruments

Financial assets and financial liabilities are recognised when True Yoga becomes a party to the contractual provisions of the instrument.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

True Yoga's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. The accounting policy on impairment loss of financial assets is set out below.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the True Yoga's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When the trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by True Yoga are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by True Yoga are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities, including other payables and amounts due to immediate holding company/a director/related parties, are subsequently measured at amortised cost, using the effective interest method.

Derecognition

True Yoga derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the consideration received and receivable is recognised in profit or loss.

True Yoga derecognises financial liabilities when, and only when, True Yoga's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

5. Revenue and segment information

	For the year ended 31 December			For the five months ended 31 May	
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
Service revenue:					
– Membership fees	44,254	39,313	32,177	15,016	10,424
– Trial classes fees	4,755	4,646	2,815	1,566	1,090
Registration and processing fees	7,995	7,093	4,149	1,921	1,501
Others	<u>1,231</u>	<u>1,225</u>	<u>2,367</u>	<u>1,329</u>	<u>230</u>
	<u>58,235</u>	<u>52,277</u>	<u>41,508</u>	<u>19,832</u>	<u>13,245</u>

True Yoga derives all its revenue from the operation of fitness centres and provision of consultation services for fitness and health activities in Singapore. The chief operating decision maker, being the management of True Yoga, monitors the revenue, results, assets and liabilities of the business as a whole based on the management accounts prepared in accordance with SFRS issued by the Accounting Standards Council which are substantially in conformity with HKFRSs, and considers the assets and liabilities of the business, which included all assets and liabilities as stated in the statements of financial position, and considers the revenue and results of the business which represented revenue and profit for the year/period as stated in the statements of profit or loss and other comprehensive income.

Based on the above, the management of True Yoga has determined that, on the basis of the information used by the chief operating decision maker for the purposes of resources allocation and performance evaluation, the entire True Yoga is a single operating and reportable segment.

Furthermore, as all the non-current assets of True Yoga are physically located in Singapore and all revenue are derived from Singapore based on location of operation of True Yoga, no geographical information is presented.

There is no revenue from any single external customers that contributed over 10% of the total revenue of True Yoga throughout the Relevant Period.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

6. Other income

	For the year ended			For the five months ended	
	31 December			31 May	
	2014	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Management fee income					
from a fellow subsidiary	19,908	16,831	16,122	6,215	6,486
Government grants	1,154	881	1,267	935	265
Others	<u>28</u>	<u>144</u>	<u>860</u>	<u>840</u>	<u>846</u>
	<u>21,090</u>	<u>17,856</u>	<u>18,249</u>	<u>7,990</u>	<u>7,597</u>

7. Other gains and losses

	For the year ended			For the five months ended	
	31 December			31 May	
	2014	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Net foreign exchange gain (loss)	3	(6)	(7)	(1)	1
(Impairment loss on) reversal of trade receivable	(269)	(270)	237	-	-
Gain on disposal of plant and equipment	47	6	4	4	-
Impairment loss on plant and equipment	(6,063)	(439)	(630)	-	-
Written off on plant and equipment	<u>-</u>	<u>-</u>	<u>(105)</u>	<u>(105)</u>	<u>-</u>
	<u>(6,282)</u>	<u>(709)</u>	<u>(501)</u>	<u>(102)</u>	<u>1</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

8. Finance costs

	For the year ended			For the five months ended	
	31 December			31 May	
	2014	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Interests expense on:					
– amount due to a related party	–	45	230	97	73
– obligation under a finance lease	<u>37</u>	<u>34</u>	<u>34</u>	<u>14</u>	<u>12</u>
	<u>37</u>	<u>79</u>	<u>264</u>	<u>111</u>	<u>85</u>

9. Income tax expense

Singapore Corporate Income Tax is calculated at 17% of the estimated assessable profits for the Relevant Period. No provision for Singapore Corporate tax has been made in the Historical Financial Information of True Yoga as True Yoga has no assessable profit for the Relevant Period. Certain tax loss of True Yoga for the Relevant Period is transferred to True Fitness Pte. Ltd. and its subsidiary within the same group for the set off of the assessable income of the transferee under the Group Relief System issued by Inland Revenue Authority of Singapore (the “Group Relief System”).

The tax charge for the Relevant Period can be reconciled to the loss before tax as follows:

	For the year ended			For the five months ended	
	31 December			31 May	
	2014	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Loss before tax	<u>(34,847)</u>	<u>(25,096)</u>	<u>(15,660)</u>	<u>(7,696)</u>	<u>(7,329)</u>
Tax at the domestic income tax rate of 17%	(5,924)	(4,266)	(2,662)	(1,308)	(1,246)
Tax effect of expenses not deductible for tax purposes	54	102	158	–	–
Tax effect of income not taxable for tax purposes	(126)	(15)	(50)	(20)	(13)
Tax effect of tax losses not recognised	6,107	4,287	2,628	1,358	1,284
Tax effect of tax incentives	<u>(111)</u>	<u>(108)</u>	<u>(74)</u>	<u>(30)</u>	<u>(25)</u>
Income tax expense	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Tax incentives are granted under the Productivity and Innovation Credit Scheme (“PIC”) by Inland Revenue Authority of Singapore. PIC grants to those businesses which have invested in productivity and innovation activities covered under PIC, enhanced deductions and/or allowance up to a certain cap of qualifying expenditure incurred.

10. Loss for the year/period

	For the year ended 31 December			For the five months ended 31 May	
	2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2016 <i>HK\$'000</i> (unaudited)	2017 <i>HK\$'000</i>
Loss for the year/period has been arrived at after charging:					
Staff costs (including directors' emoluments)					
Salaries and other costs	58,849	53,752	45,753	20,842	18,430
Contribution to defined contribution plan	<u>3,670</u>	<u>3,564</u>	<u>3,215</u>	<u>1,462</u>	<u>1,267</u>
	<u>62,519</u>	<u>57,316</u>	<u>48,968</u>	<u>22,304</u>	<u>19,697</u>
Auditor's remuneration	<u>290</u>	<u>348</u>	<u>346</u>	<u>146</u>	<u>144</u>

10A. Emoluments of director and employees

	For the year ended 31 December 2014			
	Director's fees <i>HK\$'000</i>	Salaries/ service fee and other benefits <i>HK\$'000</i>	Retirement benefits scheme contributions <i>HK\$'000</i>	Total emoluments <i>HK\$'000</i>
Director				
Mr. Patrick John				
Wee Ewe Seng	<u>–</u>	<u>9,817</u>	<u>78</u>	<u>9,895</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

For the year ended 31 December 2015

	Salaries/ service fee and other benefits	Retirement benefits scheme contributions	Total emoluments
Director's fees	HK\$'000	HK\$'000	HK\$'000
Director			
Mr. Patrick John			
Wee Ewe Seng	–	9,016	78
	<u>–</u>	<u>9,016</u>	<u>78</u>
			<u>9,094</u>

For the year ended 31 December 2016

	Salaries/ service fee and other benefits	Retirement benefits scheme contributions	Total emoluments
Director's fees	HK\$'000	HK\$'000	HK\$'000
Director			
Mr. Patrick John			
Wee Ewe Seng	–	8,973	98
	<u>–</u>	<u>8,973</u>	<u>98</u>
			<u>9,071</u>

For the five months ended 31 May 2016 (unaudited)

	Salaries/ service fee and other benefits	Retirement benefits scheme contributions	Total emoluments
Director's fees	HK\$'000	HK\$'000	HK\$'000
Director			
Mr. Patrick John			
Wee Ewe Seng	–	4,102	29
	<u>–</u>	<u>4,102</u>	<u>29</u>
			<u>4,131</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

For the five months ended 31 May 2017				
	Director's fees	Salaries/ service fee and other benefits	Retirement benefits scheme contributions	Total emoluments
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Director				
Mr. Patrick John				
Wee Ewe Seng	–	3,421	57	3,478
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The director's emoluments shown above were for his services in connection with the management of the affairs of True Yoga.

Employees

The five highest paid individuals for the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017 include one director of True Yoga, details of whose remunerations are set out above. Details of the remuneration for the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017 of the remaining four highest paid employees who are neither director nor chief executive of True Yoga are as follows:

	For the year ended			For the five months ended	
	31 December			31 May	
	2014	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Salaries and allowances	9,478	7,077	6,960	3,460	2,888
Performance related incentive payments <i>(Note)</i>	82	1,279	1,404	554	66
Retirement benefits scheme contributions	<u>312</u>	<u>312</u>	<u>392</u>	<u>195</u>	<u>126</u>
	<u>9,872</u>	<u>8,668</u>	<u>8,756</u>	<u>4,209</u>	<u>3,080</u>

Note: The performance related incentive payments are determined based on the performance of the individuals.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The number of these highest paid individuals, whose emolument fell within the following bands is as follows:

	For the year ended 31 December			For the five months ended 31 May	
	2014	2015	2016	2016 (unaudited)	2017
Nil to HK\$1,000,000	-	1	1	2	3
HK\$1,000,001 to HK\$1,500,000	2	1	1	2	1
HK\$1,500,001 to HK\$2,000,000	-	-	-	-	-
HK\$2,000,001 to HK\$2,500,000	-	-	-	-	-
HK\$2,500,001 to HK\$3,000,000	-	-	-	-	-
HK\$3,000,001 to HK\$3,500,000	2	2	2	-	-
	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>

No emoluments were paid by True Yoga to the director of True Yoga or the five highest paid individuals (including director and employees) as an inducement to join or upon joining True Yoga or as compensation for loss of office for the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017. The director did not waive nor agree to waive any emoluments for the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017.

11. Dividends

No dividend was paid or proposed to the shareholders of the True Yoga during the Relevant Period.

12. Loss per share

Loss per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

13. Plant and equipment

	Fitness equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold improvement <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Assets in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST							
At 1 January 2014	119	4,729	2,004	38,660	8,217	312	54,041
Effect on exchange adjustments	(5)	(190)	(81)	(1,578)	(319)	(20)	(2,193)
Additions	11	112	–	141	123	475	862
Disposal	–	(142)	–	–	(751)	–	(893)
Purchased from related parties	–	6	–	–	–	–	6
Reclassification	–	–	–	–	314	(314)	–
At 31 December 2014	125	4,515	1,923	37,223	7,584	453	51,823
Effect on exchange adjustments	(8)	(320)	(127)	(2,460)	(504)	(14)	(3,433)
Additions	–	188	–	26	80	–	294
Disposal	–	–	–	(11)	(38)	–	(49)
Purchased from related parties	–	4	–	–	12	–	16
Disposal to related parties	–	(14)	–	–	–	–	(14)
Reclassification	–	439	–	–	–	(439)	–
At 31 December 2015	117	4,812	1,796	34,778	7,134	–	48,637
Effect on exchange adjustments	(2)	(119)	(39)	(264)	–	–	(424)
Additions	–	421	–	250	6	–	677
Purchased from related parties	–	3	–	–	9	–	12
Disposal to related parties	–	(78)	–	–	(1)	–	(79)
Written offs/disposals	(5)	(28)	–	(20,573)	(3,265)	–	(23,871)
At 31 December 2016	110	5,011	1,757	14,191	3,883	–	24,952
Effect on exchange adjustment	5	223	78	632	173	–	1,111
Additions	–	24	–	44	–	–	68
Purchase from related parties	10	–	–	–	–	–	10
Disposal to related parties	–	(14)	–	–	–	–	(14)
Written off/disposal	–	(3)	–	–	–	–	(3)
At 31 May 2017	125	5,241	1,835	14,867	4,056	–	26,124

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

	Fitness equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold improvement <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Assets in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
DEPRECIATION AND IMPAIRMENT							
At 1 January 2014	119	3,878	1,191	30,372	7,324	-	42,884
Effect on exchange adjustments	(5)	(171)	(43)	(1,371)	(291)	-	(1,881)
Provided for the year	1	439	223	3,004	643	-	4,310
Eliminated on disposals	-	(142)	-	-	(749)	-	(891)
Impairment loss (reversal of impairment loss)	<u>10</u>	<u>511</u>	<u>(333)</u>	<u>5,218</u>	<u>657</u>	<u>-</u>	<u>6,063</u>
At 31 December 2014	125	4,515	1,038	37,223	7,584	-	50,485
Effect on exchange adjustments	(8)	(313)	(80)	(2,460)	(502)	-	(3,363)
Provided for the year	-	27	321	4	27	-	379
Eliminated on disposals	-	-	-	(11)	(38)	-	(49)
Eliminated on disposal to related parties	-	(14)	-	-	-	-	(14)
Impairment losses	<u>-</u>	<u>439</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>439</u>
At 31 December 2015	117	4,654	1,279	34,756	7,071	-	47,877
Effect on exchange adjustments	(2)	(102)	(22)	(264)	-	-	(390)
Provided for the year	-	103	298	25	35	-	461
Eliminated on disposal to related parties	-	(61)	-	-	(1)	-	(62)
Eliminated on written off/disposals	(5)	(26)	-	(20,470)	(3,265)	-	(23,766)
Impairment losses	<u>-</u>	<u>443</u>	<u>-</u>	<u>144</u>	<u>43</u>	<u>-</u>	<u>630</u>
At 31 December 2016	<u>110</u>	<u>5,011</u>	<u>1,555</u>	<u>14,191</u>	<u>3,883</u>	<u>-</u>	<u>24,750</u>
Effect on exchange adjustment	5	223	71	632	173	-	1,104
Period for the period	1	2	123	9	-	-	135
Eliminated on disposal to related parties	-	(14)	-	-	-	-	(14)
Eliminated on written off/disposal	<u>-</u>	<u>(3)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3)</u>
At 31 May 2017	<u><u>116</u></u>	<u><u>5,219</u></u>	<u><u>1,749</u></u>	<u><u>14,832</u></u>	<u><u>4,056</u></u>	<u><u>-</u></u>	<u><u>25,972</u></u>
CARRYING VALUES							
At 31 December 2014	<u>-</u>	<u>-</u>	<u>885</u>	<u>-</u>	<u>-</u>	<u>453</u>	<u>1,338</u>
At 31 December 2015	<u>-</u>	<u>158</u>	<u>517</u>	<u>22</u>	<u>63</u>	<u>-</u>	<u>760</u>
At 31 December 2016	<u>-</u>	<u>-</u>	<u>202</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>202</u>
At 31 May 2017	<u><u>9</u></u>	<u><u>22</u></u>	<u><u>86</u></u>	<u><u>35</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>152</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Fitness equipment	7 years
Computer equipment	3 years
Motor vehicles	7 years
Leasehold improvements	5 years
Furniture, fixtures and office equipment	3 years

During the Relevant Period, in view of operating loss incurred throughout the Relevant Period, the director of True Yoga conducted a review of True Yoga's plant and equipment and determined that the recoverable amounts of a number of assets were below their carrying amount. Accordingly, during the years ended 31 December 2014, 2015 and 2016, full impairment losses of HK\$6,063,000, HK\$439,000, HK\$630,000, respectively, have been recognised in respect of certain plant and equipment.

The following are the carrying amount of plant and equipment which are held under finance leases:

	As at 31 December			As at
	2014	2015	2016	31 May
	HK\$'000	HK\$'000	HK\$'000	2017
				HK\$'000
Motor vehicles	<u>885</u>	<u>517</u>	<u>202</u>	<u>78</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

14. Trade and other receivables

	As at 31 December			As at
	2014	2015	2016	31 May
	HK\$'000	HK\$'000	HK\$'000	2017 HK\$'000
Trade receivables	696	773	726	437
Less: allowance for doubtful debt	<u>–</u>	<u>(237)</u>	<u>–</u>	<u>–</u>
	696	536	726	437
Other receivables				
– Other receivables	–	8	–	45
– Deposits	35	156	32	410
– Prepayments	<u>578</u>	<u>1,216</u>	<u>235</u>	<u>225</u>
Total trade and other receivables	<u>1,309</u>	<u>1,916</u>	<u>993</u>	<u>1,117</u>

True Yoga individually assesses its customer's receivables accounts for any impairment. Based on transaction date, all trade receivables net of allowance for doubtful debts are aged within 30 days of credit period as at 31 December 2014, 2015 and 2016 and 31 May 2017 and they are neither past due nor impaired and considered to have good credit quality. True Yoga does not hold any collateral over these balances.

	As at 31 December			As at
	2014	2015	2016	31 May
	HK\$'000	HK\$'000	HK\$'000	2017 HK\$'000
0 to 30 days	<u>696</u>	<u>536</u>	<u>726</u>	<u>437</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The carrying amount of trade receivables is after netting off the following impairment allowances:

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
Balance at beginning of the year/period	–	–	–	–
Impairment losses recognised (reversal) on receivables	269	270	(237)	–
Amounts written off as uncollectible	<u>(269)</u>	<u>(270)</u>	<u>–</u>	<u>–</u>
Balance at end of the year/period	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

During the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017, trade receivables with an aggregate balance of HK\$269,000, HK\$270,000, nil, nil (unaudited) and nil, respectively, was individually assessed as impaired after considering the subsequent settlements and aging analysis of trade receivables. Full impairment losses are recognised once the trade receivables are aged over 60 days from the transaction date. The accumulated impairment losses would be written off after reassessment of the recoverability of the trade receivables and upon management approval. True Yoga does not hold any collateral over these balances.

15. Bank balances and cash

Bank balances carry interest at prevailing market rates which is 0.10% per annum during the Relevant Period.

16. Other payables and accruals

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
Accrued expenses	8,365	7,725	3,377	4,528
Other payables	<u>8,622</u>	<u>4,951</u>	<u>3,407</u>	<u>2,721</u>
	<u>16,987</u>	<u>12,676</u>	<u>6,784</u>	<u>7,249</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

17. Obligation under a finance lease

	As at 31 December			As at
	2014	2015	2016	31 May
	HK\$'000	HK\$'000	HK\$'000	2017 HK\$'000
Analysed for reporting purposes as:				
Current liabilities	177	165	162	181
Non-current liabilities	<u>841</u>	<u>620</u>	<u>445</u>	<u>453</u>
	<u>1,018</u>	<u>785</u>	<u>607</u>	<u>634</u>

True Yoga leases certain of its motor vehicles under finance leases. The lease term is 10 years for the Relevant Period. Interest rate underlying the obligation under a finance lease is fixed at contract date at 1.99% per annum throughout the Relevant Period.

	Minimum lease payments				Present value of minimum lease payments			
	As at 31 December			As at	As at 31 December			As at
	2014	2015	2016	31 May	2014	2015	2016	31 May
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Obligations under finance leases payable:								
Within one year	212	198	194	195	177	165	162	181
Within a period of more than one year but not more than two years	212	198	194	195	177	165	162	181
Within a period of more than two years but not more than five years	637	545	339	342	531	455	283	272
Within a period of more than five years	<u>159</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>133</u>	<u>-</u>	<u>-</u>	<u>-</u>
	1,220	941	727	732	1,018	785	607	634
Less: future finance charges	<u>(202)</u>	<u>(156)</u>	<u>(120)</u>	<u>(98)</u>				
Present value of lease obligations	<u>1,018</u>	<u>785</u>	<u>607</u>	<u>634</u>				
Less: Amount due for settlement within 12 months (shown under current liabilities)					<u>(177)</u>	<u>(165)</u>	<u>(162)</u>	<u>(181)</u>
Amount due for settlement after 12 months					<u>841</u>	<u>620</u>	<u>445</u>	<u>453</u>

True Yoga's obligation under finance lease is secured by the lessor's title to the leased asset.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

18. Amounts due from (to) related parties/immediate holding company/a director

The amounts due from related parties are detailed as follows:

						Maximum balances outstanding			
	As at 1 January	As at 31 December			As at 31 May	For the year ended 31 December			For the five months ended 31 May
	2014 HK'000	2014 HK'000	2015 HK'000	2016 HK'000	2017 HK'000	2014 HK'000	2015 HK'000	2016 HK'000	2017 HK'000
Amount due from related parties									
CJ Group Pte Ltd	14,723	14,352	12,623	1,845	-	14,723	14,352	12,623	1,845
True Fitness Ltd. (Thailand) (i)	3,418	3,368	3,305	10	-	3,418	3,368	3,305	10
True Yoga (Xiamen) Co., Ltd. (ii)	-	-	-	4	-	-	-	4	4
	<u>18,141</u>	<u>17,720</u>	<u>15,928</u>	<u>1,859</u>	<u>-</u>				

(i) The entity was under control of Mr. Patrick John Wee Ewe Seng.

(ii) As at 31 December 2014, 2015 and 2016, the entity was under control of Mr. Patrick John Wee Ewe Seng. As at 31 May 2017, the entity was under control of Tongfang.

Amounts due from related parties are unsecured, interest free and repayable on demand.

Amounts due to related parties included loan from a related party amounted to nil, SGD1,000,000, SGD1,000,000 and SGD1,000,000 (equivalent to nil, HK\$5,510,000, HK\$5,390,000 and HK\$5,630,000) as at 31 December 2014, 2015 and 2016 and 31 May 2017, respectively, which is unsecured, interest bearing at fixed rate of 4% per annum and repayable on demand. The remaining portion of HK\$148,629,000, HK\$161,899,000, HK\$188,482,000 and HK\$208,562,000, as at 31 December 2014, 2015 and 2016 and 31 May 2017, respectively, is unsecured, interest-free and repayable on demand.

Amounts due to immediate holding company/a director as at 31 December 2014 and 2015 is unsecured, interest-free and repayable on demand.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

19. Share capital

	Authorised 31 December 2014, 2015 and 2016 and 31 May 2017	Issued and fully paid 31 December 2014, 2015 and 2016 and 31 May 2017
Ordinary shares of SGD \$1 each	<u>SGD\$100,000</u>	<u>SGD\$100,000</u>
Shown in the Historical Financial Information of True Yoga		<u>HK\$455,000</u>

20. Provision of reinstatement cost

	<i>HK\$'000</i>
At 1 January 2014	3,600
Effect on exchange adjustments	<u>(147)</u>
At 31 December 2014	3,453
Effect on exchange adjustments	<u>(228)</u>
At 31 December 2015	3,225
Utilisation of provision	(1,713)
Effect on exchange adjustments	<u>26</u>
At 31 December 2016	<u>1,538</u>
Utilisation of provision	(15)
Effect on exchange adjustment	<u>83</u>
At 31 May 2017	<u><u>1,606</u></u>

Under the terms of the rental agreements signed with landlords, True Yoga shall remove and re-instate the rented premises upon expiry of the relevant rental agreements. Provision is therefore made for the best estimate based on the lease term ranging from one to five years.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

21. Deferred taxation

For the purpose of presentation in the Historical Financial Information of True Yoga, a deferred tax asset and liability has been offset. The following is the analysis of the deferred tax balances:

	As as 31 December			As at
	2014	2015	2016	31 May
	HK\$000	HK\$000	HK\$000	2017
				HK\$000
Deferred tax asset	-	-	750	-
Deferred tax liability	-	-	(750)	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Accelerated tax depreciation	Tax losses	Total
	HK\$000	HK\$000	HK\$000
At 1 January 2014, 31 December 2014 and 31 December 2015	-	-	-
Charge (credit) to profit or loss	788	(788)	-
Exchange differences	<u>(38)</u>	<u>38</u>	<u>-</u>
At 31 December 2016	750	(750)	-
Charge (credit) to profit or loss	-	-	-
Effect on exchange adjustment	<u>-</u>	<u>-</u>	<u>-</u>
At 31 May 2017	<u>750</u>	<u>(750)</u>	<u>-</u>

As at 31 December 2016 and 31 May 2017, a deferred tax asset has been recognised in respect of HK\$4,412,000 of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$68,641,000, HK\$82,759,000, HK\$82,776,000 and HK\$79,694,000 as at 31 December 2014, 2015 and 2016 and 31 May 2017 respectively. The losses may be carried forward indefinitely.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The movements of unrecognised tax losses of True Yoga are as follow:

	<i>HK\$'000</i>
At 1 January 2014	59,411
Tax losses not recognised during the year	35,924
Transfer to group companies under the Group Relief System	<u>(26,694)</u>
At 31 December 2014	68,641
Tax losses not recognised during the year	25,218
Transfer to group companies under the Group Relief System	<u>(11,110)</u>
At 31 December 2015	82,759
Tax losses not recognised during the year	15,458
Transfer to group companies under the Group Relief System	<u>(15,441)</u>
At 31 December 2016	82,776
Tax losses not recognised during the period	7,553
Transfer to group companies under the Group Relief System	<u>(10,635)</u>
At 31 May 2017	<u><u>79,694</u></u>

22. Operating leases***True Yoga as lessee***

True Yoga recognised minimum lease payments in respect of its fitness premises amounting to HK\$25,933,000, HK\$24,002,000, HK\$15,673,000, HK\$8,350,000 (unaudited) and HK\$5,281,000 during the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017, respectively.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

At the end of each of the reporting period, True Yoga had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December			As at
	2014	2015	2016	31 May
	HK\$'000	HK\$'000	HK\$'000	2017 HK\$'000
Within one year	24,944	15,147	12,125	11,773
In the second to fifth years inclusive	8,166	22,003	9,643	5,627
	33,110	37,150	21,768	17,400

Operating lease payments represent rentals payable by True Yoga for fitness premises. These leases are negotiated for terms ranging from one to five years with fixed monthly rental.

23. Related party disclosures

(i) Related party transactions

In addition to the transactions, balances and commitments disclosed elsewhere in the Historical Financial Information of True Yoga, True Yoga had entered into the following significant transactions during the Relevant Period:

Nature of transaction	For the year ended			For the	For the
	31 December			five	five
	2014	2015	2016	months ended 31 May	months ended 31 May
	HK\$'000	HK\$'000	HK\$'000	2016 HK\$'000	2017 HK\$'000
True Fitness Pte. Ltd.*					
Purchase of plant and equipment	6	16	12	-	10
Proceeds from disposal of plant and equipment	-	-	17	-	-
Interest expenses paid	-	45	230	96	73
Management fee income	19,908	16,831	16,122	6,215	6,486

* For the years ended 31 December 2014, 2015 and 2016 and up to the date before the completion of the Acquisition, the entity was under control of Mr. Patrick John Wee Ewe Seng. From the completion date of the Acquisition of 29 May 2017, the entity was under control of Tongfang.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

(ii) Compensation of key management personnel

	For the year ended 31 December			For the five months ended 31 May	
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
Salaries and allowances	19,295	16,093	15,933	7,531	6,284
Performance related incentive payments	82	1,279	1,404	554	66
Retirement benefits scheme contributions	<u>390</u>	<u>390</u>	<u>490</u>	<u>192</u>	<u>196</u>
	<u>19,767</u>	<u>17,762</u>	<u>17,827</u>	<u>8,277</u>	<u>6,546</u>

24. Retirement benefit plan

True Yoga participates in a defined contribution scheme operated by Central Provident Fund Board in Singapore. The assets of the scheme are held separately from those of True Yoga, in funds under the control of trustees.

The total expenses recognised in profit or loss of HK\$3,670,000, HK\$3,564,000, HK\$3,215,000, HK\$1,462,000 (unaudited) and HK\$1,267,000 for the years ended 31 December 2014, 2015 and 2016 and for the five months ended 2016 and 2017, respectively, represent contributions paid and payable to the plan by True Yoga at rates specified in the rules of the plan.

25. Capital risk management

The director of True Yoga manages its capital to ensure that True Yoga is able to continue as a going concern while maximising the return to the owners of True Yoga through the optimisation of the debt and equity balance. True Yoga's overall strategy remains unchanged throughout the Relevant Period.

The capital structure consists of debts and equity attributable to owner of True Yoga, comprising issued share capital and accumulated losses.

The director of True Yoga reviews the capital structure on an annual basis. As part of this review, the director of True Yoga considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of True Yoga, True Yoga will balance its overall capital structure through the issuance of new share as well as the issuance of new debts or the redemption of existing debt.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

26. Financial instruments

Categories of financial instruments

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
Financial assets				
Loans and receivables (including bank balance and cash)	<u>19,597</u>	<u>17,401</u>	<u>4,792</u>	<u>2,163</u>
Financial liabilities				
Amortised cost	174,841	187,595	197,279	216,913
Obligation under a finance lease	<u>1,018</u>	<u>785</u>	<u>607</u>	<u>634</u>
	<u>175,859</u>	<u>188,380</u>	<u>197,886</u>	<u>217,547</u>

Financial risk management objectives and policies

True Yoga's major financial instruments include rental deposits, trade and other receivables, bank balances and cash, other payables, amounts due from(to) immediate holding company/a director/related parties and obligation under a finance lease. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risks

Interest rate risk

True Yoga's fair value interest rate risk relates primarily to fixed-rate interest bearing amount due to a related party and obligation under a finance lease (see notes 18 and 17 for details). True Yoga's cash flow interest rate risk relates primarily to variable-rate bank balances (see note 15 for details).

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

True Yoga has not used any interest rate swaps to mitigate its exposure associated with interest rate risk. However, management monitors interest rate exposure and will consider necessary actions when significant interest rate exposure is anticipated.

True Yoga's exposures to interest rates on financial liabilities are detailed in the liquidity risk.

The management considers the exposure of interest rate risk over bank balances is not significant. Accordingly, no sensitivity analysis is presented.

Credit risk

At the end of each reporting period, True Yoga's maximum exposure to credit risk which will cause a financial loss to True Yoga due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the recognised financial assets as stated in the statements of financial position.

In order to minimise the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, True Yoga reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the director of True Yoga considers that True Yoga's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

True Yoga has concentration risk on amounts due from related parties amounted to HK\$17,720,000, HK\$15,928,000 and HK\$1,859,000 as at 31 December 2014, 2015 and 2016 respectively. True Yoga will monitor the level of exposure to ensure that follow up actions and/or corrective actions are taken promptly to lower the risk exposure.

The director of True Yoga considers that the credit risk on amounts due from related parties is limited because he regularly monitors the financial position of the related parties through involvement in either their management and operations as the related parties are under the control of the director of True Yoga.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the director of True Yoga, which has built an appropriate liquidity risk management framework for the management of True Yoga's short, medium and long-term funding and liquidity management requirements. For the years ended 31 December 2014, 2015 and 2016 and for the period from 1 January 2017 to the date before the completion of the Acquisition, True Yoga manages liquidity risk by the continuing financial support from Mr. Patrick John Wee Ewe Seng. From the completion date of the Acquisition of 29 May 2017, True Yoga obtains the financial support from Tongfang who has agreed to provide all necessary financial support to True Yoga in its foreseeable future so as to maintain True Yoga's ability to continue as a going concern.

The following tables detail True Yoga's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which True Yoga can be required to pay. The maturity dates for the non-derivative financial liabilities are based on the agreed repayment dates.

Liquidity and interest risk tables

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	3 to 6 months HK\$'000	6 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
At 31 December 2014							
Other payables	-	8,622	-	-	-	8,622	8,622
Obligation under a finance lease	1.99	53	53	106	1,008	1,220	1,018
Amount due to a director	-	648	-	-	-	648	648
Amount due to immediate holding company	-	16,942	-	-	-	16,942	16,942
Amounts due to related parties	-	148,629	-	-	-	148,629	148,629
		<u>174,894</u>	<u>53</u>	<u>106</u>	<u>1,008</u>	<u>176,061</u>	<u>175,859</u>

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	3 to 6 months HK\$'000	6 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
At 31 December 2015							
Other payables	-	4,951	-	-	-	4,951	4,951
Obligation under a finance lease	1.99	50	49	99	743	941	785
Amount due to a director	-	605	-	-	-	605	605
Amount due to immediate holding company	-	14,630	-	-	-	14,630	14,630
Amounts due to related parties							
- non-interest bearing	-	161,899	-	-	-	161,899	161,899
- fixed rate	4.00	5,510	-	-	-	5,510	5,510
		<u>187,645</u>	<u>49</u>	<u>99</u>	<u>743</u>	<u>188,536</u>	<u>188,380</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	3 to 6 months HK\$'000	6 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
At 31 December 2016							
Other payables	–	3,407	–	–	–	3,407	3,407
Obligation under a finance lease	1.99	48	49	97	533	727	607
Amounts due to related parties							
– non-interest bearing	–	188,482	–	–	–	188,482	188,482
– fixed rate	4.00	5,390	–	–	–	5,390	5,390
		<u>197,327</u>	<u>49</u>	<u>97</u>	<u>533</u>	<u>198,006</u>	<u>197,886</u>
	Weighted average interest rate %	On demand or less than 3 months HK\$'000	3 to 6 months HK\$'000	6 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
At 31 May 2017							
Other payables	–	2,721	–	–	–	2,721	2,721
Obligation under a finance lease	1.99	51	51	93	537	732	634
Amounts due to related parties							
– non-interest bearing	–	208,562	–	–	–	208,562	208,562
– fixed rate	4.00	5,630	–	–	–	5,630	5,630
		<u>216,964</u>	<u>51</u>	<u>93</u>	<u>537</u>	<u>217,645</u>	<u>217,547</u>

Fair value

The director of True Yoga considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information of True Yoga approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

27. Note to the statements of cash flows

The table below details changes in True Yoga's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in True Yoga's statements of cash flows as cash flows from financing activities.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Reconciliation of liabilities arising from financial activities:

	Obligation under a finance lease <i>HK\$'000</i>	Amount due to immediate holding company <i>HK\$'000</i>	Amount due to a director <i>HK\$'000</i>	Amounts due to related parties <i>HK\$'000</i>	Total liabilities from financing activities <i>HK\$'000</i>
At 1 January 2014	1,246	21,636	675	124,499	148,056
Financing cash flows (<i>Note</i>)	(222)	(3,996)	–	50,455	46,237
Finance costs	37	–	–	–	37
Non-cash changes					
Management fee income	–	–	–	(19,908)	(19,908)
Foreign exchange movement	(43)	(698)	(27)	(6,417)	(7,185)
At 31 December 2014	1,018	16,942	648	148,629	167,237
Financing cash flows (<i>Note</i>)	(205)	(1,835)	–	47,118	45,078
Finance costs	34	–	–	45	79
Non-cash changes					
Management fee income	–	–	–	(16,831)	(16,831)
Foreign exchange movement	(62)	(477)	(43)	(11,552)	(12,134)
At 31 December 2015	785	14,630	605	167,409	183,429
Financing cash flows (<i>Note</i>)	(204)	(15,028)	(622)	47,739	31,885
Finance costs	34	–	–	230	264
Non-cash changes					
Management fee income	–	–	–	(16,122)	(16,122)
Foreign exchange movement	(8)	398	17	(5,384)	(4,977)
At 31 December 2016	607	–	–	193,872	194,479
Financing cash flows (<i>Note</i>)	–	–	–	18,270	18,270
Finance costs	12	–	–	73	85
Non-cash changes					
Management fee income	–	–	–	(6,486)	(6,486)
Foreign exchange movement	15	–	–	8,463	8,478
At 31 May 2017	<u>634</u>	<u>–</u>	<u>–</u>	<u>214,192</u>	<u>214,826</u>
For the five months ended 31 May 2016 (unaudited)					
At 1 January 2016	785	14,630	605	167,409	183,429
Financing cash flows (<i>Note</i>)	–	(13,641)	–	15,868	2,227
Finance costs	14	–	–	97	111
Non-cash changes					
Management fee income	–	–	–	(6,215)	(6,215)
Foreign exchange movement	(53)	(989)	25	7,071	6,054
At 31 May 2016 (unaudited)	<u>746</u>	<u>–</u>	<u>630</u>	<u>184,230</u>	<u>185,606</u>

Note: The cash flows from obligation under a finance lease, amount due to immediate holding company, amount due to a director and amounts due to related parties make up the amount of proceeds received and repayments made in the statement of cash flows.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

28. Major non-cash transaction

Save as disclosed elsewhere in the Historical Financial Information of True Yoga, True Yoga has the following major non-cash transactions during the Relevant Period:

During the five months ended 31 May 2017, pursuant to the agreement between True Yoga and its immediate holding company, CJ Group Pte. Ltd., True Yoga waives the amount due from CJ Group Pte. Ltd. of SGD783,000 (equivalent to HK\$4,410,000).

During the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017, management fee income amounting to HK\$19,908,000, HK\$16,831,000, HK\$16,122,000, HK\$6,215,000 (unaudited) and HK\$6,486,000, respectively, has been settled through current account with a related party which was under the control of Mr. Patrick John Wee Ewe Seng.

The following is the text of a report set out on pages II-111 to II-180, received from the reporting accountants of Tongfang Kontafarma Holdings Limited, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte.

德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF TONGFANG KONTAFARMA HOLDINGS LIMITED

Introduction

We report on the historical financial information of True Yoga Holdings Limited (“True Yoga Cayman”) and its subsidiaries (together, the “True Yoga Cayman Group”) set out on pages II-114 to II-180, which comprises the consolidated statements of financial position as at 31 December 2014, 2015 and 2016 and 31 May 2017 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years then ended and for the five months ended 31 May 2017 (the “Relevant Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information of True Yoga Cayman Group”). The Historical Financial Information of True Yoga Cayman Group set out on pages II-114 to II-180 forms an integral part of this report, which has been prepared for inclusion in the circular of Tongfang Kontafarma Holdings Limited (“Tongfang”) dated 28 July 2017 in connection with the acquisition of 51% shareholding of TFKT True Holdings and 29% shareholding of True Yoga Cayman (the “Circular”) by Fester Global Limited, an indirect wholly-owned subsidiary of Tongfang (the “Acquisition”) (the “Circular”).

Directors' responsibility for the Historical Financial Information of True Yoga Cayman Group

The directors of True Yoga Cayman are responsible for the preparation of Historical Financial Information of True Yoga Cayman Group that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information of True Yoga Cayman Group, and for such internal control as the directors of True Yoga Cayman determine is necessary to enable the preparation of Historical Financial Information of True Yoga Cayman Group that is free from material misstatement, whether due to fraud or error.

The directors of Tongfang are responsible for the contents of the Circular in which the Historical Financial Information of True Yoga Cayman Group is included, and such information is prepared based on accounting policies materially consistent with those of Tongfang.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information of True Yoga Cayman Group and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information of True Yoga Cayman Group is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information of True Yoga Cayman Group. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information of True Yoga Cayman Group, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of Historical Financial Information of True Yoga Cayman Group that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information of True Yoga Cayman Group in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of True Yoga Cayman, as well as evaluating the overall presentation of the Historical Financial Information of True Yoga Cayman Group.

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

Opinion

In our opinion, the Historical Financial Information of True Yoga Cayman Group gives, for the purposes of the accountants’ report, a true and fair view of True Yoga Cayman Group’s financial position as at 31 December 2014, 2015 and 2016 and 31 May 2017 and of True Yoga Cayman Group’s financial performance and cash flows for the Relevant Period in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information of True Yoga Cayman Group.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of True Yoga Cayman Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the five months ended 31 May 2016 and other explanatory information (the “Stub Period Comparative Financial Information of True Yoga Cayman Group”). The directors of True

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Yoga Cayman are responsible for the preparation of the Stub Period Comparative Financial Information of True Yoga Cayman Group in accordance with the basis of preparation set out in note 2 to the Historical Financial Information of True Yoga Cayman Group. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information of True Yoga Cayman Group based on our review. We conducted our review 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 of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information of True Yoga Cayman Group, for the purposes of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the Historical Financial Information of True Yoga Cayman Group.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

The Historical Financial Information of True Yoga Cayman Group is stated after making such adjustments to the Historical and Underlying Financial Statements of True Yoga Cayman Group as defined on page II-114 as were considered necessary.

Dividends

We refer to note 12 to the Historical Financial Information of True Yoga Cayman Group which states that no dividends have been paid by True Yoga Cayman Group in respect of the Relevant Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 July 2017

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

HISTORICAL FINANCIAL INFORMATION OF TRUE YOGA CAYMAN GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information of True Yoga Cayman Group which forms an integral part of this accountants' report.

The Historical Financial Information of True Yoga Cayman Group in this report was prepared based on previously issued consolidated financial statements of True Concept Ltd. and its subsidiary for the year ended 31 December 2014 and the management accounts of True Yoga Cayman for the period from 2 July 2014 (date of incorporation) to 31 December 2014 and previously issued consolidated financial statements of True Yoga Cayman Group for the years ended 31 December 2015 and 2016 which have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations ("Taiwan Accounting Standards") endorsed by the Financial Supervisory Commission, the Republic of China ("R.O.C") and were audited by KPMG, Taipei, R.O.C. in accordance with "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the R.O.C. For the five months ended 31 May 2017, the directors of True Yoga Cayman have prepared the consolidated financial statements of True Yoga Cayman Group in accordance with Taiwan Accounting Standards and we have audited the financial information in accordance with Hong Kong Standards on Auditing issued by HKICPA. (collectively "Historical and Underlying Financial Statements of True Yoga Cayman Group").

The Historical Financial Information of True Yoga Cayman Group is presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the year ended 31 December			For the five months ended 31 May	
		2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
Revenue	6	210,168	263,661	313,727	120,841	153,873
Direct costs		<u>(187,561)</u>	<u>(238,903)</u>	<u>(284,056)</u>	<u>(109,364)</u>	<u>(142,212)</u>
Gross profit		22,607	24,758	29,671	11,477	11,661
Other income	7	2,106	1,838	839	212	347
Other gains and losses	8	355	1,821	(499)	(113)	(391)
Selling expenses		(1,823)	(1,499)	(2,013)	(613)	(1,004)
Administrative expenses		<u>(17,152)</u>	<u>(18,480)</u>	<u>(18,119)</u>	<u>(7,728)</u>	<u>(8,526)</u>
Results from operating activities		6,093	8,438	9,879	3,235	2,087
Finance costs	9	<u>(1,419)</u>	<u>(1,783)</u>	<u>(910)</u>	<u>(592)</u>	<u>(288)</u>
Profit before tax		4,674	6,655	8,969	2,643	1,799
Income tax expense	10	<u>(3,994)</u>	<u>(529)</u>	<u>(4,836)</u>	<u>(1,107)</u>	<u>(2,966)</u>
Profit (loss) for the year /period	11	<u>680</u>	<u>6,126</u>	<u>4,133</u>	<u>1,536</u>	<u>(1,167)</u>
Other comprehensive (expense) income for the year/period						
Item that may be reclassified subsequently to profit or loss						
Exchange differences arising on translation of foreign operation		(110)	40	231	73	247
Item that will not be reclassified to profit or loss						
Exchange differences arising on translation to presentation currency		<u>-</u>	<u>(3,606)</u>	<u>-</u>	<u>-</u>	<u>4,162</u>
Other comprehensive (expense) income for the year/period		<u>(110)</u>	<u>(3,566)</u>	<u>231</u>	<u>73</u>	<u>4,409</u>
Total comprehensive income for the year/period		<u><u>570</u></u>	<u><u>2,560</u></u>	<u><u>4,364</u></u>	<u><u>1,609</u></u>	<u><u>3,242</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December			As at
		2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	31 May 2017 HK\$'000
Non-current assets					
Plant and equipment	14	112,731	144,484	173,963	182,235
Intangible assets	15	–	6,240	6,240	–
Loans to related parties	16	38,154	–	9,547	–
Rental deposits		11,449	12,715	10,629	13,303
Other financial assets	17	31,200	29,660	39,618	51,139
Deferred tax assets	24	3,826	4,630	3,460	2,971
		<u>197,360</u>	<u>197,729</u>	<u>243,457</u>	<u>249,648</u>
Current assets					
Inventories		76	–	–	–
Amounts due from related parties	16	3,045	130	345	6,935
Other financial assets	17	16,737	23,573	31,580	32,833
Trade and other receivables	18	5,008	7,191	9,925	10,773
Bank balances and cash	19	6,997	33,352	18,815	13,526
		<u>31,863</u>	<u>64,246</u>	<u>60,665</u>	<u>64,067</u>
Current liabilities					
Trade and other payables	20	40,635	33,207	32,684	32,373
Deferred income		71,941	89,633	116,016	127,340
Tax payable		267	841	984	–
Amounts due to related parties	16	1,541	180	–	–
Bank borrowings	21	7,572	9,445	13,538	23,420
Provision of reinstatement cost	22	–	272	–	–
Obligations under finance leases	23	6,808	6,947	1,057	–
		<u>128,764</u>	<u>140,525</u>	<u>164,279</u>	<u>183,133</u>
Net current liabilities		<u>(96,901)</u>	<u>(76,279)</u>	<u>(103,614)</u>	<u>(119,066)</u>
Total assets less current liabilities		<u><u>100,459</u></u>	<u><u>121,450</u></u>	<u><u>139,843</u></u>	<u><u>130,582</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

		As at 31 December			As at
		2014	2015	2016	31 May
	Notes	HK\$'000	HK\$'000	HK\$'000	2017
					HK\$'000
Capital and reserves					
Stock capital/share capital	25	4,500	41,311	41,311	41,311
Reserves		<u>38,099</u>	<u>4,266</u>	<u>8,630</u>	<u>(9,942)</u>
Total equity		<u>42,599</u>	<u>45,577</u>	<u>49,941</u>	<u>31,369</u>
Non-current liabilities					
Other payable	20	6,827	8,652	9,285	10,158
Bank borrowings	21	–	5,776	9,768	10,036
Provision of reinstatement cost	22	4,428	6,072	6,925	7,787
Obligations under finance leases	23	13,071	7,550	–	–
Deferred income		33,473	47,796	63,792	71,040
Deferred tax liabilities	24	<u>61</u>	<u>27</u>	<u>132</u>	<u>192</u>
		<u>57,860</u>	<u>75,873</u>	<u>89,902</u>	<u>99,213</u>
		<u>100,459</u>	<u>121,450</u>	<u>139,843</u>	<u>130,582</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Stock capital/ share capital HK\$'000	Capital Surplus HK\$'000 (note i)	Exchange reserve HK\$'000	Legal reserve HK\$'000 (note ii)	Other reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2014	4,500	-	(197)	2,255	-	35,471	42,029
Profit for the year	-	-	-	-	-	680	680
Other comprehensive expense for the year							
- Exchange differences arising on translation of foreign operation	-	-	(110)	-	-	-	(110)
Total comprehensive (expense) income for the year	-	-	(110)	-	-	680	570
At 31 December 2014	4,500	-	(307)	2,255	-	36,151	42,599
Profit for the year	-	-	-	-	-	6,126	6,126
Other comprehensive income (expense) for the year							
- Exchange differences arising on translation of foreign operation	-	-	40	-	-	-	40
- Exchange differences arising on translation to presentation currency	-	-	(3,606)	-	-	-	(3,606)
Total comprehensive (expense) income for the year	-	-	(3,566)	-	-	6,126	2,560
Capital injection	41,311	-	-	-	-	-	41,311
Acquisition of subsidiaries under common control	-	(40,893)	-	-	-	-	(40,893)
Effect of reorganisation	(4,500)	4,500	-	-	-	-	-
At 31 December 2015	41,311	(36,393)	(3,873)	2,255	-	42,277	45,577
Profit for the year	-	-	-	-	-	4,133	4,133
Other comprehensive income for the year							
- Exchange differences arising on translation of foreign operation	-	-	231	-	-	-	231
Total comprehensive income for the year	-	-	231	-	-	4,133	4,364
At 31 December 2016	41,311	(36,393)	(3,642)	2,255	-	46,410	49,941

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

	Stock capital/ share capital HK\$'000	Capital Surplus HK\$'000 (note i)	Exchange reserve HK\$'000	Legal reserve HK\$'000 (note ii)	Other reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Loss for the period	-	-	-	-	-	(1,167)	(1,167)
Item that may be reclassified subsequently to profit or loss							
Exchange differences arising on translation of foreign operation	-	-	247	-	-	-	247
Item that will not be reclassified to profit or loss							
Exchange differences arising on translation to presentation currency	-	-	4,162	-	-	-	4,162
Total comprehensive income (expense) for the period	-	-	4,409	-	-	(1,167)	3,242
Deem distribution to controlling party resulting from waiver of loan to a related party and amount due from the related party	-	-	-	-	(25,202)	-	(25,202)
Disposal of interest in a subsidiary (note 29)	-	-	(538)	-	3,926	-	3,388
At 31 May 2017	<u>41,311</u>	<u>(36,393)</u>	<u>229</u>	<u>2,255</u>	<u>(21,276)</u>	<u>45,243</u>	<u>31,369</u>
For the five months ended 31 May 2016 (unaudited)							
At 31 December 2015	<u>41,311</u>	<u>(36,393)</u>	<u>(3,873)</u>	<u>2,255</u>	<u>-</u>	<u>42,277</u>	<u>45,577</u>
Profit for the period	-	-	-	-	-	1,536	1,536
Item that may be reclassified subsequently to profit or loss							
Exchange differences arising on translation of foreign operation	-	-	73	-	-	-	73
Total comprehensive income for the period	-	-	73	-	-	1,536	1,609
At 31 May 2016 (unaudited)	<u>41,311</u>	<u>(36,393)</u>	<u>(3,800)</u>	<u>2,255</u>	<u>-</u>	<u>43,813</u>	<u>47,186</u>

Note:

- (i) Amount represents difference between the consideration of NTD170,393,000 (equivalent to HK\$40,893,000) for the acquisition of 100% equity interest of True Concept Ltd. and the stock capital of True Concept Ltd. on the acquisition date.
- (ii) According to the laws and regulations of the Republic of China ("R.O.C"), a subsidiary of True Yoga Cayman which incorporated in R.O.C. is required to allocate 10% of its statutory net income (after its losses have been covered and all taxes and duties have been paid) to legal reserve annually, until the reserve balance has reached the stock capital amount of the subsidiary.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended 31 December			For the five months ended 31 May	
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
Operating activities					
Profit before tax	4,674	6,655	8,969	2,643	1,799
Adjustments for:					
Depreciation of plant and equipment	19,642	25,526	32,781	12,474	16,216
Finance costs	1,419	1,783	910	592	288
Interest income	(2,106)	(1,678)	(602)	(212)	(310)
Loss on disposal of plant and equipment	116	72	283	100	31
Operating cash flows before movements in working capital	23,745	32,358	42,341	15,597	18,024
(Increase) decrease in rental deposits	(6,420)	(1,796)	2,086	(2,626)	(1,788)
Increase in other financial assets	(2,766)	(8,403)	(17,965)	(5,516)	(6,889)
(Increase) decrease in inventories	(25)	73	-	-	-
Increase in trade and other receivables	(666)	(2,483)	(2,734)	(4,160)	(21)
Increase (decrease) in trade and other payables	9,095	4,651	4,632	(863)	10,517
Increase in deferred income	21,148	36,456	43,111	17,803	13,605
Decrease in provision of reinstatement cost	-	-	(272)	-	-
Cash generated from operations	44,111	60,856	71,199	20,235	33,448
Income tax paid	(6,128)	(939)	(3,418)	(844)	(4,012)
Net cash from operating activities	37,983	59,917	67,781	19,391	29,436
Investing activities					
Purchase of property, plant and equipment	(31,620)	(71,966)	(66,505)	(25,987)	(24,690)
Advance to related parties	(7,670)	-	(9,762)	-	(16,190)
Interest received	2,106	1,678	602	212	310
Repayment from related parties	-	41,064	-	-	-
Purchase of intangible assets	-	(6,500)	-	-	-
Proceeds from disposal of plant and equipment	-	10	-	-	30
Disposal of a subsidiary (note 29)	-	-	-	-	(3,418)
Net cash used in investing activities	(37,184)	(35,714)	(75,665)	(25,775)	(43,958)

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

	For the year ended			For the five months ended	
	31 December		2016 HK\$'000	31 May	
	2014 HK\$'000	2015 HK\$'000		2016 HK\$'000	2016 HK\$'000
Financing activities				(unaudited)	
Payments of finance leases	(2,320)	(4,577)	(13,440)	(2,833)	(1,145)
Interest paid	(1,419)	(1,783)	(910)	(592)	(288)
New bank borrowings raised	1,854	9,460	16,706	–	10,548
Advance from related parties	58	–	–	–	–
Repayment to related parties	–	(1,354)	(180)	(74)	–
New capital injection	–	41,311	–	–	–
Acquisition of subsidiaries under common control	–	(40,893)	–	–	–
Repayment of bank borrowings	–	(1,490)	(8,621)	(5,034)	–
Net cash (used in) from financing activities	<u>(1,827)</u>	<u>674</u>	<u>(6,445)</u>	<u>(8,533)</u>	<u>9,115</u>
Net (decrease) increase in cash and cash equivalents	(1,028)	24,877	(14,329)	(14,917)	(5,407)
Cash and cash equivalents at beginning of the year/period	7,716	6,951	33,352	33,352	18,815
Effect of foreign exchange rate changes	<u>309</u>	<u>1,524</u>	<u>(208)</u>	<u>(116)</u>	<u>118</u>
Cash and cash equivalents at end of the year/period, represented by bank balances and cash	<u><u>6,997</u></u>	<u><u>33,352</u></u>	<u><u>18,815</u></u>	<u><u>18,319</u></u>	<u><u>13,526</u></u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF TRUE YOGA CAYMAN GROUP**1. General information**

True Yoga Cayman was incorporated on 2 July 2014 in the Cayman Islands. The address of the Company's registered office and principal place of business is 7F-3, No. 20, Sec. 3, Bade Rd., Songshan Dist., Taipei City 105, Taiwan (R.O.C). Its immediate holding company is CJ Group Pte. Ltd., a company incorporated in the Republic of Singapore. Its ultimate holding company is WCJ Holdings Ltd, a company incorporated in the Republic of Mauritius. Its ultimate controlling party is Mr. Patrick John Wee Ewe Seng.

True Yoga Cayman and its subsidiaries are principally engaged in the operation of fitness centres and the provision of consultation services for fitness and health activities.

The Historical Financial Information of True Yoga Cayman Group is presented in Hong Kong Dollars (HK\$) for the purpose of this Circular while the functional currency of True Yoga Cayman is New Taiwan Dollar ("NTD").

2. Group reorganisation and basis of preparation and presentation of the Historical Financial Information of True Yoga Cayman Group

The Historical Financial Information of True Yoga Cayman Group has been prepared based on the accounting policies set out in Note 4 which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

During 2015, True Yoga Cayman acquired 100% shares of True Concept Ltd. from CJ Group Pte Ltd., an entity controlled by Mr. Patrick John Wee Ewe Seng, at consideration of NTD170,393,000 (equivalent to HK\$40,893,000) ("Reorganisation"). True Yoga Cayman became the holding company of the companies now comprising True Yoga Cayman Group during 2015. True Concept Ltd. and its subsidiary and True Yoga Cayman have been under the common control of Mr. Patrick John Wee Ewe Seng prior to and after the Reorganisation. Accordingly, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the two years ended 31 December 2015 have been prepared to present the results, changes in equity and cash flows of the companies now comprising True Yoga Cayman Group, as if the group structure upon the completion of the Reorganisation had been in existence throughout the two years ended 31 December 2015, or since the relevant date of incorporation where it is a shorter period. The consolidated statement of financial position of the True Yoga Cayman Group as at 31 December 2014 has been prepared to present the assets and liabilities of the companies now comprising the True Yoga Cayman Group as if the current group structure had been in existence at that date.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

3. Application of HKFRSs

For the purpose of preparing and presenting the Historical Financial Information of True Yoga Cayman Group for the Relevant Period, True Yoga Cayman Group has consistently adopted the HKFRSs issued by the HKICPA, which are effective for the accounting periods beginning on 1 January 2017, throughout the Relevant Periods.

New and amendments to HKFRSs and new interpretation in issue but not yet effective

True Yoga Cayman Group has not early applied the following new and amendments to HKFRSs and the new interpretation that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration ¹
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle except for amendments to HKFRS 12 ¹

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

HKFRS 9 “Financial Instruments”

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Key requirements of HKFRS 9 which are relevant to True Yoga Cayman Group are described as follows:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 “Financial Instruments: Recognition and Measurement”. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Based on True Yoga Cayman Group's financial instruments and risk management policies as at 31 May 2017, upon application of HKFRS 9, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to True Yoga Cayman Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the directors of True Yoga Cayman perform a detailed review.

HKFRS 15 “Revenue from Contracts with Customers”

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The directors of True Yoga Cayman anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of True Yoga Cayman do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the True Yoga Cayman Group presents operating lease payments as operating cash flows. Under HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, True Yoga Cayman Group has already recognised an asset and related finance lease liability for finance lease arrangement where True Yoga Cayman Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether True Yoga Cayman Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

As at 31 May 2017, True Yoga Cayman Group has non-cancellable operating lease commitments of HK\$298,147,000 as disclosed in note 26. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence True Yoga Cayman Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of True Yoga Cayman complete a detailed review.

Except as described above, the directors of True Yoga Cayman consider that the application of the other amendments to HKFRSs and the new interpretation will have no material impact on the results and financial position of True Yoga Cayman Group.

4. Significant Accounting Policies

The Historical Financial Information of True Yoga Cayman Group has been prepared on the historical cost basis. In addition, the Historical Financial Information of True Yoga Cayman Group includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the True Yoga Cayman Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information of True Yoga Cayman Group is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The significant accounting policies are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the companies now comprising True Yoga Cayman Group. Control is achieved when True Yoga Cayman:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

True Yoga Cayman Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when True Yoga Cayman Group obtains control over the subsidiary and ceases when True Yoga Cayman Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date True Yoga Cayman Group gains control until the date when True Yoga Cayman Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with True Yoga Cayman Group's accounting policies.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of True Yoga Cayman Group are eliminated in full on consolidation.

Changes in True Yoga Cayman Group's ownership interests in existing subsidiaries

When the True Yoga Cayman Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the True Yoga Cayman. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the True Yoga Cayman Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the True Yoga Cayman Group and when specific criteria have been met for each of the True Yoga Cayman Group's activities, as described below.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Monthly fees received for membership are recognised as revenue on straight-line basis over the service usage period. Instalments received in advance for prepaid packages are recorded as deferred income.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Revenue from trial classes is recognised when the trial class is provided.

Revenue from personal training classes is recognised when the personal training class is provided.

Revenue from registration and processing fee is recognised when service package contract is entered with customer.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The True Yoga Cayman Group as lessee

Assets held under finance leases are recognised as assets of the True Yoga Cayman Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a liability and release as a reduction of rental expense over the lease term on a straight-line basis.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Historical Financial Information of True Yoga Cayman Group, (i) the assets and liabilities of the Group's foreign operations are translated into NTD, and (ii) the assets and liabilities of True Yoga Cayman Group's entities denominated in or translated into NTD are translated into the presentation currency of True Yoga Cayman Group (i.e. HKD) at the rate of exchange prevailing at the end of the reporting period, and the income and expenses are translated at the average exchange rates for the year/period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

On the disposal of a foreign operation (i.e. a disposal of True Yoga Cayman Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of True Yoga Cayman are reclassified to profit or loss.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are recognised in profit or loss.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs necessary to make the sale.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit or loss as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible. True Yoga Cayman Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information of True Yoga Cayman Group and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary difference. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where True Yoga Cayman Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which True Yoga Cayman Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Plant and equipment

Plant and equipment including assets for use in the production or supply of goods or services, or for administrative purposes other than assets in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Assets in progress includes plant and equipment in the course of construction for production or for its own use purposes. Assets in progress is carried at cost less any recognised impairment loss. Assets in progress is classified to the appropriate category of plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Depreciation is recognised so as to write off the cost of assets, other than assets in progress, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets acquired separately

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on tangible and intangible assets

At the end of the reporting period, True Yoga Cayman Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, True Yoga Cayman Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as immediately in profit or loss.

Provisions

Provisions are recognised when True Yoga Cayman Group has a present obligation (legal or constructive) as a result of a past event, it is probable that True Yoga Cayman Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provision of reinstatement cost

A provision for reinstatement cost is made for the estimated costs of dismantlement, removal or restoration of plant and equipment arising from the acquisition or use of assets, which are capitalised and included in the cost of plant and equipment.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

True Yoga Cayman Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loans to related parties, other financial assets, amounts due from related parties, trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. The accounting policy on impairment loss of financial assets is set out below.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include True Yoga Cayman Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When the trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities, including trade and other payables, amounts due to related parties and bank borrowings, are subsequently measured at amortised cost, using the effective interest method.

Derecognition

True Yoga Cayman Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the consideration received and receivable is recognised in profit or loss.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

True Yoga Cayman Group derecognises financial liabilities when, and only when, True Yoga Cayman Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. Key sources of estimation uncertainty

In the application of True Yoga Cayman Group's accounting policies, which are described in note 4, the directors of True Yoga Cayman are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and the future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months from the end of each reporting period.

Impairment of plant and equipment

Plant and equipment are carried at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The review comprises a comparison of the carrying amount and recoverable amount of the plant and equipment. Where the actual future cash flows or fair value less costs of disposal are less than expected, or unfavourable changes in facts and circumstances which result in downward revision of the estimated future cash flows for the purpose of determining the value in use, impairment loss may arise. As at 31 December 2014, 2015 and 2016 and 31 May 2017, the carrying amounts of plant and equipment are HK\$112,731,000, HK\$144,484,000, HK\$173,963,000 and HK\$182,235,000, respectively.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

6. Revenue and segment information

	For the year ended			For the five months ended	
	31 December			31 May	
	2014	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Service revenue:				(unaudited)	
– Membership fees	156,309	182,199	224,110	90,611	119,338
– Trial classes fees	26,683	42,083	47,886	18,761	20,311
Registration and processing fees	25,521	37,147	40,666	11,023	13,278
Sales of merchandise	<u>1,655</u>	<u>2,232</u>	<u>1,065</u>	<u>446</u>	<u>946</u>
	<u>210,168</u>	<u>263,661</u>	<u>313,727</u>	<u>120,841</u>	<u>153,873</u>

True Yoga Cayman Group is principally engaged in operation of fitness centres and the provision of consultation services for fitness and health activities.

In prior years, no information was reported to True Yoga Cayman’s directors, being the chief operating decision maker of True Yoga Cayman Group (“CODM”) in respect of True Yoga Cayman Group’s business in the People’s Republic of China (the “PRC”). During the five months ended 31 May 2017, in order to present a more meaningful information by different location of fitness premises, consistent with how performance of different geographic location being assessed, True Yoga Cayman Group changed the structure of its internal reports reviewed by the True Yoga Cayman’s directors.

This led to a change in the segment information reported for all prior periods.

The details of True Yoga Cayman Group’s operating segments determined by location of operation are as follows:

- (i) Taiwan
- (ii) the PRC

These operating segments also represent the True Yoga Cayman Group’s reportable segments. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the True Yoga Cayman Group.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Segment revenues and results

The following is an analysis of the True Yoga Cayman Group's revenue and results by operating segments:

For the year ended 31 December 2014

	Taiwan <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue-external	<u>194,565</u>	<u>15,603</u>	<u>210,168</u>
Segment result	<u>(1,398)</u>	<u>4,332</u>	2,934
Net foreign exchange gain			478
Interest income			2,106
Interest expenses			<u>(844)</u>
Profit before tax			<u><u>4,674</u></u>

For the year ended 31 December 2015

	Taiwan <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue-external	<u>244,581</u>	<u>19,080</u>	<u>263,661</u>
Segment result	<u>5,196</u>	<u>(967)</u>	4,229
Unallocated corporate expenses			(725)
Net foreign exchange gain			1,893
Interest income			1,678
Interest expenses			<u>(420)</u>
Profit before tax			<u><u>6,655</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

For the year ended 31 December 2016

	Taiwan <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue-external	<u>294,860</u>	<u>18,867</u>	<u>313,727</u>
Segment result	<u>9,596</u>	<u>(348)</u>	9,248
Unallocated corporate expenses			(327)
Net foreign exchange loss			(216)
Interest income			602
Interest expenses			<u>(338)</u>
Profit before tax			<u><u>8,969</u></u>

For the five months ended 31 May 2016 (unaudited)

	Taiwan <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue-external	<u>112,931</u>	<u>7,910</u>	<u>120,841</u>
Segment result	<u>2,525</u>	<u>166</u>	2,691
Unallocated corporate expenses			(98)
Net foreign exchange loss			(13)
Interest income			212
Interest expenses			<u>(149)</u>
Profit before tax			<u><u>2,643</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

For the five months ended 31 May 2017

	Taiwan	The PRC	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue-external	<u>146,620</u>	<u>7,253</u>	<u>153,873</u>
Segment result	<u>3,479</u>	<u>(1,252)</u>	2,227
Unallocated corporate expenses			(100)
Net foreign exchange loss			(360)
Interest income			310
Interest expenses			<u>(278)</u>
Profit before tax			<u><u>1,799</u></u>

The accounting policies of the operating segments are the same as the True Yoga Cayman Group's accounting policies described in note 4. Segment results represent the profit for the year from each segment without allocation of net exchange gain (loss), interest income, certain interest expenses and unallocated corporate expenses.

Segment assets and liabilities

The following is an analysis of the True Yoga Cayman Group's assets and liabilities by reportable segments:

As at 31 December 2014

	Taiwan	The PRC	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets	<u>211,144</u>	<u>11,082</u>	222,226
Unallocated assets			<u>6,997</u>
Total assets			<u><u>229,223</u></u>
Segment liabilities	<u>167,758</u>	<u>11,294</u>	179,052
Unallocated liabilities			<u>7,572</u>
Total liabilities			<u><u>186,624</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

As at 31 December 2015

	Taiwan <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	<u>220,840</u>	<u>7,783</u>	228,623
Unallocated assets			<u>33,352</u>
Total assets			<u><u>261,975</u></u>
Segment liabilities	<u>187,263</u>	<u>13,914</u>	201,177
Unallocated liabilities			<u>15,221</u>
Total liabilities			<u><u>216,398</u></u>

As at 31 December 2016

	Taiwan <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	<u>277,932</u>	<u>7,375</u>	285,307
Unallocated assets			<u>18,815</u>
Total assets			<u><u>304,122</u></u>
Segment liabilities	<u>216,773</u>	<u>14,102</u>	230,875
Unallocated liabilities			<u>23,306</u>
Total liabilities			<u><u>254,181</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

As at 31 May 2017

	Taiwan <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	<u>300,189</u>	<u>–</u>	300,189
Unallocated assets			<u>13,526</u>
Total assets			<u><u>313,715</u></u>
Segment liabilities	<u>248,890</u>	<u>–</u>	248,890
Unallocated liabilities			<u>33,456</u>
Total liabilities			<u><u>282,346</u></u>

All assets are allocated to operating segments other than bank balances and cash and all liabilities are allocated to operating segments other than bank borrowings.

Other segment information

	For the year ended 31 December 2014		
	Taiwan <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment asset:			
Depreciation of plant and equipment	18,499	1,143	19,642
Addition of plant and equipment	61,646	2	61,648
Loss on disposal of plant and equipment	<u>116</u>	<u>–</u>	<u>116</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

	For the year ended 31 December 2015		
	Taiwan	The PRC	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment asset:			
Depreciation of plant and equipment	24,500	1,026	25,526
Addition of plant and equipment	63,404	51	63,455
Addition of intangible assets	6,500	–	6,500
Loss on disposal of plant and equipment	<u>62</u>	<u>10</u>	<u>72</u>

	For the year ended 31 December 2016		
	Taiwan	The PRC	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment asset:			
Depreciation of plant and equipment	31,869	912	32,781
Addition of plant and equipment	62,852	–	62,852
Loss on disposal of plant and equipment	<u>275</u>	<u>8</u>	<u>283</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

	For the five months ended		
	31 May 2016 (unaudited)		
	Taiwan	The PRC	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment asset:			
Depreciation of plant and equipment	12,273	201	12,474
Addition of plant and equipment	25,987	–	25,987
Loss on disposal of plant and equipment	<u>100</u>	<u>–</u>	<u>100</u>

	For the five months ended		
	31 May 2017		
	Taiwan	The PRC	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment asset:			
Depreciation of plant and equipment	15,962	254	16,216
Addition of plant and equipment	19,412	277	19,689
Loss on disposal of plant and equipment	<u>31</u>	<u>–</u>	<u>31</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Geographical information

The following table sets out information about the geographical location of (i) True Yoga Cayman Group's revenue from external customers; and (ii) True Yoga Cayman Group's non-current assets other than loans to related parties, other financial assets and deferred tax assets by locations of the relevant clubs.

	Revenue from external customers					Non-current assets			As at 31 May 2017 HK\$'000
	For the year ended 31 December			For the five months ended 31 May		As at 31 December			
	2014	2015	2016	2016	2017	2014	2015	2016	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
				(unaudited)					
Taiwan	194,565	244,581	294,860	112,931	146,620	115,373	157,786	186,134	195,538
The PRC	15,603	19,080	18,867	7,910	7,253	8,807	5,653	4,698	-
	<u>210,168</u>	<u>263,661</u>	<u>313,727</u>	<u>120,841</u>	<u>153,873</u>	<u>124,180</u>	<u>163,439</u>	<u>190,832</u>	<u>195,538</u>

7. Other income

	For the year ended 31 December			For the five months ended 31 May	
	2014	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Interest income from:					
– related parties		1,513	90	42	127
– bank		593	1,588	560	183
Others		-	160	237	37
		<u>2,106</u>	<u>1,838</u>	<u>839</u>	<u>347</u>

8. Other gains and losses

	For the year ended 31 December			For the five months ended 31 May	
	2014	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Net foreign exchange gain/(loss)	478	1,893	(216)	(13)	(360)
Loss on disposal of plant and equipment	(116)	(72)	(283)	(100)	(31)
Others	(7)	-	-	-	-
	<u>355</u>	<u>1,821</u>	<u>(499)</u>	<u>(113)</u>	<u>(391)</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

9. Finance costs

	For the year ended			For the five months ended	
	31 December			31 May	
	2014	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Interests expense on:					
– bank borrowings	844	420	338	149	278
– obligation under finance leases	<u>575</u>	<u>1,363</u>	<u>572</u>	<u>443</u>	<u>10</u>
	<u>1,419</u>	<u>1,783</u>	<u>910</u>	<u>592</u>	<u>288</u>

10. Income tax expense

	For the year ended			For the five months ended	
	31 December			31 May	
	2014	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
The charge comprises:					
Current tax:					
– Taiwan Corporate Tax	2,822	1,602	3,682	380	3,026
(Over) under provision in prior years					
– Taiwan Corporate Tax	<u>-</u>	<u>(15)</u>	<u>3</u>	<u>3</u>	<u>2</u>
	2,822	1,587	3,685	383	3,028
Deferred tax charge (credit)	<u>1,172</u>	<u>(1,058)</u>	<u>1,151</u>	<u>724</u>	<u>(62)</u>
	<u>3,994</u>	<u>529</u>	<u>4,836</u>	<u>1,107</u>	<u>2,966</u>

True Yoga Cayman was incorporated in the Cayman Islands and is exempted from income tax. It is not subject to tax in other jurisdictions.

Taiwan Corporate Tax is calculated at 17% of the estimated assessable profits of True Concept Ltd. for the Relevant Period.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards.

The tax charge for the Relevant Periods can be reconciled to the profit before tax as follows:

	For the year ended			For the five months ended	
	31 December			31 May	
	2014	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Profit before tax	<u>4,674</u>	<u>6,655</u>	<u>8,969</u>	<u>2,643</u>	<u>1,799</u>
Tax at the domestic income tax rate of 17%	795	1,131	1,525	449	306
Tax effect of expenses not deductible for tax purposes	1,219	76	159	2	-
(Over) under provision in respect of prior years	-	(15)	3	3	2
10% surtax on unappropriated earnings	1,636	59	-	-	-
Tax effect of tax losses not recognised	-	-	615	-	57
Withholding tax paid	-	-	1,946	-	3,025
Effect of different tax rates of subsidiaries operating in other jurisdictions	344	(84)	(27)	84	(39)
Others	<u>-</u>	<u>(638)</u>	<u>615</u>	<u>569</u>	<u>(385)</u>
Income tax expense	<u>3,994</u>	<u>529</u>	<u>4,836</u>	<u>1,107</u>	<u>2,966</u>

As stated in Taiwan Income Tax Act, True Concept Ltd.'s earnings generated during the year which remains undistributed by the end of the following year are subject to 10% surtax.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

11. Profit (loss) for the year/period

	For the year ended 31 December			For the five months ended 31 May	
	2014	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i>
Profit (loss) for the year/period has been arrived at after charging:					
Staff costs (including directors' emoluments):					
– Salaries and other costs	100,642	130,340	152,167	56,860	77,811
– Contributions to retirement benefits scheme	3,811	4,531	4,875	1,945	2,224
	104,453	134,871	157,042	58,805	80,035
Auditor's remuneration	309	445	483	139	208
Depreciation of plant and equipment	19,642	25,526	32,781	12,474	16,216
Operating lease rental in respect of premises	34,953	41,505	44,821	19,500	22,420

11A. Emoluments of directors and employees

Directors' emoluments

	For the year ended 31 December 2014			
	Director's fees	Salaries/ service fee and other benefits	Retirement benefits scheme contributions	Total emoluments
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Director				
Mr. Patrick John				
Wee Ewe Seng (<i>note i</i>)	–	–	–	–

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

For the year ended 31 December 2015

	Salaries/ service fee and other benefits	Retirement benefits scheme contributions	Total emoluments
Director's fees	benefits	contributions	emoluments
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Director			
Mr. Patrick John			
Wee Ewe Seng	-	-	-
Mr. Jeffery Shih (<i>note ii</i>)	-	1,688	1,697
Mr. Koh Boon Liang (<i>note iii</i>)	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>

For the year ended 31 December 2016

	Salaries/ service fee and other benefits	Retirement benefits scheme contributions	Total emoluments
Director's fees	benefits	contributions	emoluments
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Director			
Mr. Patrick John			
Wee Ewe Seng	-	-	-
Mr. Jeffery Shih	-	1,728	1,737
Mr. Koh Boon Liang (<i>note iii</i>)	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

For the five months ended 31 May 2016 (unaudited)

	Director's fees <i>HK\$'000</i>	Salaries/ service fee and other benefits <i>HK\$'000</i>	Retirement benefits scheme contributions <i>HK\$'000</i>	Total emoluments <i>HK\$'000</i>
Director				
Mr. Patrick John				
Wee Ewe Seng	-	-	-	-
Mr. Jeffery Shih	-	717	4	721
Mr. Koh Boon Liang (<i>note iii</i>)	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

For the five months ended 31 May 2017

	Director's fees <i>HK\$'000</i>	Salaries/ service fee and other benefits <i>HK\$'000</i>	Retirement benefits scheme contributions <i>HK\$'000</i>	Total emoluments <i>HK\$'000</i>
Director				
Mr. Patrick John				
Wee Ewe Seng	-	-	-	-
Mr. Jeffery Shih	-	777	4	781
Mr. Yi Peijian (<i>note iv</i>)	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes:

- (i) Mr. Patrick John Wee Ewe Seng was appointed as the director of True Yoga Cayman on 2 July 2014.
- (ii) Mr. Jeffery Shih was appointed as the director of True Yoga Cayman on 31 December 2015.
- (iii) Mr. Koh Boon Liang was appointed as the director of True Yoga Cayman on 31 December 2015 and resigned on 1 November 2016.
- (iv) Mr. Yu Peijian was appointed as the director of True Yoga Cayman on 29 May 2017.

The directors' emoluments shown above were for that director's services in connection with the management of the affairs of True Yoga Cayman Group.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Employees

The five highest paid individuals for the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017 include one director of True Yoga Cayman, details of whose remunerations are set out above. Details of the remuneration for the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017 of the remaining four highest paid employees who are neither director nor chief executive of True Yoga Cayman are as follows:

	For the year ended 31 December			For the five months ended 31 May	
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
Salaries and allowances	1,881	2,325	2,184	758	1,008
Performance related incentive payments (<i>Note</i>)	2,664	2,289	2,042	1,089	858
Retirement benefits scheme contributions	<u>36</u>	<u>36</u>	<u>36</u>	<u>15</u>	<u>15</u>
	<u>4,581</u>	<u>4,650</u>	<u>4,262</u>	<u>1,862</u>	<u>1,881</u>

Note: The performance related incentive payments are determined based on the performance of the individuals.

The number of these highest paid individuals, whose emolument fell within the following bands is as follows:

	For the year ended 31 December			For the five months ended 31 May	
	2014	2015	2016	2016 (unaudited)	2017
Nil to HK\$1,000,000	2	2	3	4	4
HK\$1,000,001 to HK\$1,500,000	-	1	-	-	-
HK\$1,500,001 to HK\$2,000,000	<u>2</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>
	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

No emoluments were paid by True Yoga Cayman Group to the directors of True Yoga Cayman or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining True Yoga Cayman Group or as compensation for loss of office for the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017. The directors did not waive nor agree to waive any emoluments for the year ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017.

12. Dividends

No dividend was paid or proposed to the shareholders of True Yoga Cayman during the Relevant Period.

13. Earnings per share

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

14. Plant and equipment

	Leasehold improvements <i>HK\$'000</i>	Fitness equipment <i>HK\$'000</i>	Others <i>HK\$'000</i>	Assets in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST					
At 1 January 2014	112,225	19,655	8,028	2,080	141,988
Effect on exchange adjustments	(5,511)	(1,109)	(308)	(107)	(7,035)
Additions	25,782	12,201	1,683	21,982	61,648
Reclassification	16,812	3,752	724	(21,288)	–
Disposal	–	(1,382)	(785)	–	(2,167)
At 31 December 2014	149,308	33,117	9,342	2,667	194,434
Effect on exchange adjustments	(6,790)	(1,786)	(501)	(1,403)	(10,480)
Additions	9,168	3,048	1,885	49,354	63,455
Reclassification	7,565	7,381	911	(15,857)	–
Disposal	–	(611)	(156)	–	(767)
At 31 December 2015	159,251	41,149	11,481	34,761	246,642
Effect on exchange adjustments	(730)	(329)	(104)	(12)	(1,175)
Additions	10,121	400	2,829	49,502	62,852
Reclassification	42,136	12,832	3,241	(58,209)	–
Disposal	(12,454)	(42)	(735)	(22)	(13,253)
At 31 December 2016	198,324	54,010	16,712	26,020	295,066
Effect on exchange adjustments	16,023	4,270	1,309	2,081	23,683
Additions	4,914	3,119	1,259	10,397	19,689
Reclassification	32,518	4,266	651	(37,435)	–
Disposal	(49)	(101)	(47)	(24)	(221)
Disposal of a subsidiary (<i>note 29</i>)	(12,199)	(6,488)	(1,378)	(754)	(20,819)
At 31 May 2017	239,531	59,076	18,506	285	317,398

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

	Leasehold improvements HK\$'000	Fitness equipment HK\$'000	Others HK\$'000	Assets in progress HK\$'000	Total HK\$'000
DEPRECIATION					
1 January 2014	53,122	8,431	5,477	–	67,030
Effect on exchange adjustments	(2,400)	(335)	(183)	–	(2,918)
Provided for the year	14,284	4,218	1,140	–	19,642
Eliminated on disposals	–	(1,272)	(779)	–	(2,051)
At 31 December 2014	65,006	11,042	5,655	–	81,703
Effect on exchange adjustments	(3,365)	(722)	(299)	–	(4,386)
Provided for the year	17,329	6,600	1,597	–	25,526
Eliminated on disposals	–	(553)	(132)	–	(685)
At 31 December 2015	78,970	16,367	6,821	–	102,158
Effect on exchange adjustments	(514)	(264)	(88)	–	(866)
Provided for the year	21,493	8,791	2,497	–	32,781
Eliminated on disposal	(12,359)	(36)	(575)	–	(12,970)
At 31 December 2016	87,590	24,858	8,655	–	121,103
Effect on exchange adjustments	6,893	1,864	647	–	9,404
Provided for the period	10,904	3,849	1,463	–	16,216
Eliminated on disposal	(35)	(101)	(24)	–	(160)
Eliminated upon disposal of a subsidiary (note 29)	(6,801)	(3,471)	(1,128)	–	(11,400)
At 31 May 2017	98,551	26,999	9,613	–	135,163
CARRYING VALUES					
At 31 December 2014	<u>84,302</u>	<u>22,075</u>	<u>3,687</u>	<u>2,667</u>	<u>112,731</u>
At 31 December 2015	<u>80,281</u>	<u>24,782</u>	<u>4,660</u>	<u>34,761</u>	<u>144,484</u>
At 31 December 2016	<u>110,734</u>	<u>29,152</u>	<u>8,057</u>	<u>26,020</u>	<u>173,963</u>
At 31 May 2017	<u>140,980</u>	<u>32,077</u>	<u>8,893</u>	<u>285</u>	<u>182,235</u>

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Fitness equipment	5 to 7 years
Computer equipment	3 years
Motor vehicles	5 years
Leasehold improvements	The shorter of the lease period or estimated useful life
Furniture, fixtures and office equipment	3 to 5 years

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The following are the carrying amount of plant and equipment which are held under finance leases:

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
Fitness equipment	20,985	16,706	7,200	–

15. Intangible assets

	Trademark <i>HK\$'000</i>
COST	
At 1 January 2014 and 31 December 2014	–
Additions	6,500
Effect on exchange adjustments	(260)
At 31 December 2015 and 31 December 2016	6,240
Effect on exchange adjustments	520
Disposal	(6,760)
At 31 May 2017	–
AMORTISATION	
At 1 January 2014, 31 December 2014, 31 December 2015, 31 December 2016 and 31 May 2017	–
CARRYING VALUES	
At 31 December 2014	–
At 31 December 2015 and 31 December 2016	6,240
At 31 May 2017	–

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

True Yoga Cayman Group's trademark has finite legal lives but is renewable upon expiry at minimal costs. The directors of True Yoga Cayman are of the opinion that True Yoga Cayman Group would renew the trademark continuously and has the ability to do so.

As a result, the trademark is considered by the directors of True Yoga Cayman as having indefinite useful lives because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful lives is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that they may be impaired.

The recoverable amount of the trademark has been assessed. In the opinion of the directors of True Yoga Cayman, the trademark has no impairment throughout the Relevant Period.

The basis of the recoverable amounts of the trademark and its major underlying assumptions are summarised below:

The recoverable amount of the cash generating unit ("CGU") of Taiwan has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 15.89% throughout the Relevant Period. The CGU's cash flows beyond the 5-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of trademark.

During the five months ended 31 May 2017, the trademark was disposed of to a related company which was under the control of Mr. Patrick John Wee Ewe Seng on date of disposal at cost which has been settled through the current account with it.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

16. Loans to related parties/amounts due from (to) related parties

The amounts due from related parties and loan to related parties are detailed as follows:

	Maximum balances outstanding								
	As at	As at 31 December			As at	For the year ended 31 December			For the five months ended 31
	1 January	2014	2015	2016	31 May	2014	2015	2016	May
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loans to related parties									
CJ Group Pte Ltd. (note i)	24,902	29,977	-	9,547	-	29,977	29,977	9,547	9,547
True Fitness Pte Ltd. (notes i, iv)	2,564	2,457	-	-	-	2,564	2,457	-	-
True Group Holdings Ltd. (notes i, iii)	5,862	5,720	-	-	-	5,862	5,720	-	-
	<u>33,328</u>	<u>38,154</u>	<u>-</u>	<u>9,547</u>	<u>-</u>				
Amount due from related parties									
True Fitness Holdings (Singapore) Pte Ltd. (notes ii, iv)	-	-	-	-	6,760	-	-	-	6,760
CJ Group Pte Ltd. (notes ii, iii)	998	1,820	123	164	-	1,820	1,820	164	164
True Fitness Pte Ltd. (notes ii, iv)	257	412	7	166	175	412	412	166	175
True Group Holdings Ltd. (notes ii, iii)	236	463	-	-	-	463	463	-	-
True Fitness Ltd. (notes ii, iii)	338	330	-	-	-	338	330	-	-
True Fitness Sdn Bhd (notes ii, iii)	21	20	-	-	-	21	20	-	-
True Yoga Pte Ltd. (notes ii, iv)	-	-	-	15	-	-	-	15	15
	<u>1,850</u>	<u>3,045</u>	<u>130</u>	<u>345</u>	<u>6,935</u>				

Notes:

- (i) The loans to related parties are unsecured, interest bearing at fixed rate of 4% per annum and were not repayable within one year. The loans are denominated in foreign currency of Singapore Dollar.
- (ii) Amounts due from related parties are unsecured, interest-free and repayable on demand.
- (iii) The entities are under the control of Mr. Patrick John Wee Ewe Seng.
- (iv) As at 31 December 2014, 2015 and 2016, the entities were under the control of Mr. Patrick John Wee Ewe Seng. As at 31 May 2017, the entity was under control of Tongfang.

Amounts due to related parties which are under the control of Mr. Patrick John Wee Ewe Seng are unsecured, interest-free and repayable on demand.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

17. Other financial assets

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed for reporting purposes as:				
Current asset	16,737	23,573	31,580	32,833
Non-current asset	<u>31,200</u>	<u>29,660</u>	<u>39,618</u>	<u>51,139</u>
	<u><u>47,937</u></u>	<u><u>53,233</u></u>	<u><u>71,198</u></u>	<u><u>83,972</u></u>

In accordance with the corresponding regulatory requirement in the R.O.C., True Concept Ltd. transfers half of the received monies from its operation (including registration and processing fees, prepaid packages and any other fees and excluding the monthly packages) to a trust management account in the bank. In accordance with the corresponding trust regulations, True Concept Ltd. is both the consignor and beneficiary of the trust management account. True Concept Ltd. can transfer money from the trust management account to its bank balances based on relevant ratios annually, quarterly or monthly. If True Concept Ltd. is dissolved, out of business, ordered bankrupt, removed from the company registry, under provisional attachment or unable to perform the service contract as an obligor due to any other reasons, it shall be deemed that True Concept Ltd. agrees to transfer its contractual rights over the trust management account to the relevant consumer or transferee.

18. Trade and other receivables

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	1,936	3,294	5,512	5,271
Other receivables				
– Other receivables	503	51	89	915
– Prepayments	<u>2,569</u>	<u>3,846</u>	<u>4,324</u>	<u>4,587</u>
Total trade and other receivables	<u><u>5,008</u></u>	<u><u>7,191</u></u>	<u><u>9,925</u></u>	<u><u>10,773</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Trade receivable mainly represents receivables from financial institutes in relation to the payment settled by credit cards by individual customers of which the settlement is normally 15 days from transaction date. All trade receivables at 31 December 2014, 2015 and 2016 and 31 May 2017 are neither past due nor impaired and considered to have good credit quality. Full impairment losses is recognised once the trade receivables are aged over 60 days from the transaction date. The accumulated impairment losses would be written off after reassessment of the recoverability of trade receivables and management approval. During the years ended 31 December 2014, 2015 and 2016 and 31 May 2017, no impairment loss is recognised. True Yoga Cayman Group does not hold any collateral over these balances.

19. Bank balances and cash

As at 31 December 2014, 2015 and 2016 and 31 May 2017, bank balances carry interest at prevailing market rates which range from 0.6% to 0.88%, 0.06% to 1.28%, 0.06% to 1.03% and 0.13% to 1.28% per annum, respectively.

20. Trade and other payables

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
Trade payables	4,432	4,440	5,200	8,119
Accrued expenses	17,919	22,126	25,837	29,642
Other payables	3,885	4,762	4,923	4,228
Payable for acquisition of plant and equipment	<u>21,226</u>	<u>10,531</u>	<u>6,009</u>	<u>542</u>
Total	47,462	41,859	41,969	42,531
Less: Amount due within one year shown under current liabilities	<u>(40,635)</u>	<u>(33,207)</u>	<u>(32,684)</u>	<u>(32,373)</u>
Amount due after one year	<u><u>6,827</u></u>	<u><u>8,652</u></u>	<u><u>9,285</u></u>	<u><u>10,158</u></u>

Other payable due after one year represents deferred rentals payable by True Yoya Cayman Group.

An aged analysis of True Yoga Cayman Group's trade payables, presented based on the invoice dates, at the end of the Relevant Period is as follows.

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
0 to 60 days	<u><u>4,432</u></u>	<u><u>4,440</u></u>	<u><u>5,200</u></u>	<u><u>8,119</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

21. Bank borrowings

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured bank borrowings	2,572	9,696	14,498	21,236
Unsecured bank borrowings	<u>5,000</u>	<u>5,525</u>	<u>8,808</u>	<u>12,220</u>
	<u>7,572</u>	<u>15,221</u>	<u>23,306</u>	<u>33,456</u>

The maturity profile of the above bank borrowings is as follows:

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The carrying amount of bank borrowings are repayable as follows:				
Within one year	7,572	9,445	13,538	23,420
Within a period of more than one year but not exceeding two years	<u>-</u>	<u>5,776</u>	<u>9,768</u>	<u>10,036</u>
	7,572	15,221	23,306	33,456
Less: Amounts due within one year and shown under current liabilities	<u>(7,572)</u>	<u>(9,445)</u>	<u>(13,538)</u>	<u>(23,420)</u>
Amounts due after one year and shown under non-current liabilities	<u>-</u>	<u>5,776</u>	<u>9,768</u>	<u>10,036</u>

Details of the assets of True Yoga Cayman Group pledged to secure bank borrowings are set out in note 32.

The ranges of effective interest rates (which are also equal to contracted interest rates) of True Yoga Cayman Group's bank borrowings during the Relevant Period are as follows:

	As at 31 December			As at
	2014	2015	2016	31 May
				2017
Effective interest rate:				
Variable-rate bank borrowings	2.75% – 6.96%	2.39% – 6.96%	2.39% – 2.92%	2.75% – 2.92%

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

22. Provision of reinstatement cost

	<i>HK\$'000</i>
At 1 January 2014	2,790
Effect on exchange adjustments	(167)
Additional provision	<u>1,805</u>
	4,428
At 31 December 2014	
Effect on exchange adjustments	(268)
Additional provision	<u>2,184</u>
	6,344
At 31 December 2015	
Effect on exchange adjustments	(16)
Additional provision	869
Utilisation of provision	<u>(272)</u>
	6,925
At 31 December 2016	6,925
Effect on exchange adjustments	577
Additional provision	466
Disposal of a subsidiary (<i>note 29</i>)	<u>(181)</u>
	7,787
At 31 May 2017	<u><u>7,787</u></u>

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed for reporting purposes as:				
Non-current	4,428	6,072	6,925	7,787
Current	<u>–</u>	<u>272</u>	<u>–</u>	<u>–</u>
	<u><u>4,428</u></u>	<u><u>6,344</u></u>	<u><u>6,925</u></u>	<u><u>7,787</u></u>

Under the terms of the rental agreements signed with landlords, True Yoga Cayman Group shall remove and re-instate the rented premises upon expiry of the relevant rental agreements. Provision is therefore made for the best estimate based on the lease term ranging from one to ten years.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

23. Obligations under finance leases

	As at 31 December			As at
	2014	2015	2016	31 May
	HK\$'000	HK\$'000	HK\$'000	2017 HK\$'000
Analysed for reporting purposes as:				
Current liabilities	6,808	6,947	1,057	–
Non-current liabilities	<u>13,071</u>	<u>7,550</u>	<u>–</u>	<u>–</u>
	<u>19,879</u>	<u>14,497</u>	<u>1,057</u>	<u>–</u>

True Yoga Cayman Group leases certain of its fitness equipment under finance leases. The average lease term is 3 years to 4 years throughout the Relevant Period. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 8% to 8.58%, 8% to 10.69%, 8% to 10.69% and 8% to 10.69% per annum throughout the Relevant Period.

	Minimum lease payments				Present value of minimum lease payments			
	As at 31 December		As at		As at 31 December			As at
	2014	2015	2016	31 May	2014	2015	2016	31 May
	HK\$'000	HK\$'000	HK\$'000	2017 HK\$'000	HK\$'000	HK\$'000	HK\$'000	2017 HK\$'000
Obligations under finance leases payable:								
Within one year	8,052	7,863	1,067	–	6,808	6,947	1,057	–
Within a period of more than one year but not more than two years	7,233	5,513	–	–	6,460	5,092	–	–
Within a period of more than two years but not more than five years	<u>7,037</u>	<u>2,543</u>	<u>–</u>	<u>–</u>	<u>6,611</u>	<u>2,458</u>	<u>–</u>	<u>–</u>
	22,322	15,919	1,067	–	19,879	14,497	1,057	–
Less: future finance charges	<u>(2,443)</u>	<u>(1,422)</u>	<u>(10)</u>	<u>–</u>				
Present value of lease obligations	<u>19,879</u>	<u>14,497</u>	<u>1,057</u>	<u>–</u>				
Less: Amount due for settlement within 12 months (shown under current liabilities)					<u>(6,808)</u>	<u>(6,947)</u>	<u>(1,057)</u>	<u>–</u>
Amount due for settlement after 12 months					<u>13,071</u>	<u>7,550</u>	<u>–</u>	<u>–</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

24. Deferred taxation

During the Relevant Period, deferred tax assets (liabilities) were recognised in respect of the temporary differences attributable to the following:

	Accelerated accounting depreciation <i>HK\$'000</i>	Temporary difference in rent payable <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2014	1,058	1,601	2,323	23	5,005
Effect on exchange adjustments	(35)	(50)	15	2	(68)
(Charge) credit to profit or loss	<u>(123)</u>	<u>232</u>	<u>(1,195)</u>	<u>(86)</u>	<u>(1,172)</u>
At 31 December 2014	900	1,783	1,143	(61)	3,765
Effect on exchange adjustments	(47)	(79)	(67)	(27)	(220)
Credit to profit or loss	<u>98</u>	<u>185</u>	<u>38</u>	<u>737</u>	<u>1,058</u>
At 31 December 2015	951	1,889	1,114	649	4,603
Effect on exchange adjustments	(3)	(28)	(93)	–	(124)
(Charge) credit to profit or loss	<u>(136)</u>	<u>188</u>	<u>(616)</u>	<u>(587)</u>	<u>(1,151)</u>
At 31 December 2016	812	2,049	405	62	3,328
Effect on exchange adjustments	(51)	(130)	(26)	(4)	(211)
Disposal of a subsidiary (<i>note 29</i>)	(199)	–	(201)	–	(400)
Credit (charge) to profit or loss	<u>72</u>	<u>226</u>	<u>(178)</u>	<u>(58)</u>	<u>62</u>
At 31 May 2017	<u>634</u>	<u>2,145</u>	<u>–</u>	<u>–</u>	<u>2,779</u>

The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December			As at 31 May
	2014	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax assets	3,826	4,630	3,460	2,971
Deferred tax liabilities	<u>(61)</u>	<u>(27)</u>	<u>(132)</u>	<u>(192)</u>
	<u>3,765</u>	<u>4,603</u>	<u>3,328</u>	<u>2,779</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

25. Stock capital/share capital

For the purpose of presentation of the Historical Financial Information of True Yoga Cayman Group, the amount as at 1 January 2014 and 31 December 2014 represents the stock capital of True Concept Ltd. and the amount as at 31 December 2015 and 2016 represents the share capital of True Yoga Cayman.

Details of movements of authorised and issued capital of True Yoga Cayman are as follows:

	Number of ordinary shares	Amount NTD'000
<i>Authorised:</i>		
Upon incorporation, and		
at 31 December 2014 (i)	50,000	1,500
Cancellation of share capital (ii(a))	(50,000)	(1,500)
Increase of share capital (ii(b))	50,000,000	500,000
At 31 December 2015, 2016 and 31 May 2017	50,000,000	500,000
<i>Issued and fully paid:</i>		
At 1 January 2014	–	–
Capital injection upon incorporation (i)	1	–*
At 31 December 2014	1	–*
Repurchase of share (ii(a))	(1)	–*
Capital injection (iii)	16,524,500	165,245
At 31 December 2015, 2016 and 31 May 2017	16,524,500	165,245
Shown in the Historical Financial Information of True Yoga Cayman Group		
At 31 December 2014		HK\$–*
At 31 December 2015, 2016 and 31 May 2017		HK\$41,311

* less than NTD 1,000

The shares issued during the Relevant Period rank *pari passu* with the existing shares in all respects.

- (i) On 2 July 2014 (date of incorporation), the authorised share capital of True Yoga Cayman is 50,000 shares, amounting to US\$50,000 with a par value of US\$1 share. 1 share of US\$1 was issued.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

- (ii) On 23 June 2015, (a) True Yoga Cayman repurchased the 1 issued share of US\$1.00 at par and then resolved to cancel the authorised but unissued share capital of 49,999 shares of US\$1.00 par value each. (b) True Yoga Cayman resolved to create 50,000,000 ordinary shares of par value of NTD 10 each as authorised share capital.
- (iii) On 23 June 2015 and 15 October 2015, True Yoga Cayman issued a total of 10,200 shares and 16,514,300 shares, respectively, at NTD102,000 and NTD165,143,000, respectively.

26. Operating leases

True Yoga Cayman Group as lessee

True Yoga Cayman Group recognised minimum lease payments in respect of its fitness premises amounting to approximately HK\$34,953,000, HK\$41,505,000, HK\$44,821,000, HK\$19,500,000 (unaudited) and HK\$22,420,000 during the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017, respectively.

At the end of each of the reporting period, True Yoga Cayman Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	33,940	40,939	49,722	52,372
In the second to fifth years inclusive	77,065	119,940	143,646	177,014
Over five years	44,073	90,942	94,474	68,761
	155,078	251,821	287,842	298,147

Operating lease payments represent rentals payable by True Yoga Cayman Group for fitness premises. These leases are negotiated for terms ranging from one to ten years with fixed monthly rental.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

27. Related party disclosures

(i) Related party transactions

In addition to the transactions, balances and commitments disclosed elsewhere in the Historical Financial Information of True Yoga Cayman Group, True Yoga Cayman Group had entered into the following significant transactions during each of the Relevant Period:

Nature of transaction	For the year ended 31 December			For the five months ended 31 May		
	2014	2015	2016	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
				(unaudited)		
CJ Group Pte. Ltd. (a)	Interest income	1,081	85	42	15	127
	Purchase of trademark	-	6,500	-	-	-
True Fitness Pte. Ltd. (b)	Interest income	202	5	-	-	-
True Fitness Holding (Singapore) Pte. Ltd. (b)	Disposal of trademark	-	-	-	-	6,760
True Group Holdings Ltd. (a)	Interest income	230	-	-	-	-

(a) Under control of Mr. Patrick John Wee Ewe Seng.

(b) For the years ended 31 December 2014, 2015 and 2016 and up to the date before the completion of the Acquisition, the entities were under the control of Mr. Patrick John Wee Ewe Seng. From the completion date of the Acquisition of 29 May 2017, the entities were under control of Tongfang.

(ii) Compensation of key management personnel

The remuneration of directors and other members of key management during the Relevant Period is as follows:

	For the year ended 31 December			For the five months ended 31 May	
	2014	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Short-term employee benefits	6,183	6,302	5,954	2,564	2,643
Retirement benefits scheme contributions	45	45	45	19	19
	6,228	6,347	5,999	2,583	2,662

(iii) During the Relevant Period, the director of True Yoga Cayman provided a personal guarantee to True Yoga Cayman Group's bank borrowings.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

(iv) During the period ended 31 May 2017, the True Yoga Cayman Group disposed of its 100% equity interest in True Yoga (Xiamen) Co., Ltd. to Nation Valley Investment Limited, an entity under the control of Mr. Patrick John Wee Ewe Seng at date of disposal.

28. Retirement contribution plan

True Yoga Cayman Group participates in a defined contribution scheme operated by the Bureau of the Labour Insurance for its Taiwan employees. The assets of the scheme are held separately from those of True Yoga Cayman Group, in funds under the control of trustees.

True Yoga Cayman Group participates in a state-managed retirement benefits scheme operated by the local government for its employees in the People's Republic of China. True Yoga Cayman Group is required to contribute certain percentage of their payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the True Yoga Cayman Group with respect to the retirement benefits scheme is to make the specified contributions.

The total expenses recognised in profit or loss of HK\$3,811,000, HK\$4,531,000, HK\$4,875,000, HK\$1,945,000 (unaudited) and HK\$2,224,000 for the year ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017, respectively, represent contributions paid and payable to these plans by True Yoga Cayman Group at rates specified in the rules of these plans.

29. Disposal of a subsidiary

During the period ended 31 May 2017, the True Yoga Cayman Group disposed of its 100% equity interest in True Yoga (Xiamen) Co., Ltd. to Nation Valley Investment Limited, an entity under the control of Mr. Patrick John Wee Ewe Seng at date of disposal, at US\$1. The net liabilities of True Yoga (Xiamen) Co., Ltd. at the date of disposal were as follows:

HK\$'000

Consideration received:

Cash received

_____*

* *Less than HK\$'000.*

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Analysis of assets and liabilities over which control was lost at
date of disposal of 17 May 2017:

HK\$'000

Non-current assets	
Plant and equipment	9,419
Rental deposits	1,582
Deferred tax assets	400
	11,401
Current assets	
Trade receivables	230
Other receivables	841
Other financial assets	48
Bank balances and cash	3,418
	4,537
Current liabilities	
Trade payables	4,301
Other payables	685
Deferred income	11,724
Bank borrowings	2,340
	19,050
Non-current liabilities	
Provision of reinstatement cost	181
Deferred income	633
	814
Net liabilities disposed of	(3,926)
Gain on disposal of a subsidiary	
Consideration received	_*
Net liabilities disposal of	(3,926)
Gain on disposal of interest in a subsidiary recognised in consolidated statements of changes in equity	(3,926)
Net cash outflow arising on disposal:	
Cash consideration	_*
Less: bank balances and cash disposed of	(3,418)
	(3,418)

* *Less than HK\$'000*

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

For the purpose of this Circular, the directors of True Yoga Cayman prepared the information of financial position of True Yoga (Xiamen) Co., Ltd. as at 31 May 2017 as follows:

	<i>HK\$'000</i>
Non-current assets	
Plant and equipment	9,773
Rental deposits	1,150
Deferred tax assets	<u>845</u>
	<u>11,768</u>
Current assets	
Trade receivables	93
Other receivables	1,687
Bank balances and cash	<u>2,982</u>
	<u>4,762</u>
Current Liabilities	
Trade payables	2,081
Other payables	2,550
Deferred income	12,771
Bank and borrowings	<u>2,346</u>
	<u>19,748</u>
Net current liabilities	<u>(14,986)</u>
Total assets less current liabilities	<u><u>(3,218)</u></u>
Capital and reserves	
Registered capital	3,549
Reserves	<u>(6,938)</u>
Total equity	<u>(3,389)</u>
Non-current liability	
Deferred income	<u>171</u>
	<u><u>(3,218)</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

30. Capital risk management

The directors of True Yoga Cayman manage the capital of True Yoga Cayman Group to ensure that entities in the True Yoga Cayman Group are able to continue as a going concern while maximising the return to the owners of True Yoga Cayman through the optimisation of the debt and equity balance. True Yoga Cayman Group's overall strategy remains unchanged throughout the Relevant Period.

The capital structure of True Yoga Cayman Group consists of debts, which include bank borrowings and obligations under finance leases disclosed in notes 21 and 23 and equity attributable to owners of True Yoga Cayman, comprising issued share capital and retained profits.

The directors of True Yoga Cayman review the capital structure on an annual basis. As part of this review, the directors of True Yoga Cayman consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of True Yoga Cayman, True Yoga Cayman Group will balance its overall capital structure through the issuance of new share as well as the issuance of new debts or the redemption of existing.

31. Financial instruments

Categories of financial instruments

	As at 31 December			As at 31 May
	2014	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets				
Loans and receivables				
(including cash and cash equivalents)	98,572	90,060	105,506	110,619
Financial liabilities				
Amortised cost	38,656	35,174	39,438	46,345
Obligations under finance leases	19,879	14,497	1,057	–
	58,535	49,671	40,495	46,345

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Financial risk management objectives and policies

True Yoga Cayman Group's major financial instruments include loans to related parties, other financial assets, amounts due from related parties, trade and other receivables, bank balances and cash, trade and other payables, amounts due to related parties, bank borrowings and obligations under finance leases. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risks

Currency risk

True Yoga Cayman Group's exposure to currency risk mainly arises from the fluctuation of Singapore Dollar ("SGD") against the functional currencies of the relevant companies of True Yoga Cayman Group during the Relevant Period. The carrying amounts of the foreign currency denominated monetary assets and liabilities other than the functional currencies of the relevant companies now comprising True Yoga Cayman Group are as follows. The management closely monitors foreign exchange exposure to mitigate the foreign currency risk.

	Assets				Liability			
	As at 31 December		As at 31 May		As at 31 December		As at 31 May	
	2014	2015	2016	2017	2014	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
SGD	<u>40,848</u>	<u>7</u>	<u>9,608</u>	<u>175</u>	<u>-</u>	<u>129</u>	<u>86</u>	<u>-</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Sensitivity analysis

The following table details True Yoga Cayman Group's sensitivity to a 5% increase in the functional currencies of the relevant group entities against the foreign currency. 5% is the sensitivity rate used in management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit after taxation where the functional currency of the relevant group entities weakening against the relevant foreign currencies. For a 5% strengthen of the functional currency of the relevant group entities, there would be an equal and opposite impact on the profit after taxation.

	For the year ended		For the five	
	31 December		months ended	
	2014	2015	2016	31 May
	HK\$'000	HK\$'000	HK\$'000	2017
				HK\$'000
<i>Foreign currency</i>				
SGD	<u>1,695</u>	<u>(5)</u>	<u>395</u>	<u>7</u>

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year/period end exposure does not reflect the exposure during the year/period.

Interest rate risk

True Yoga Cayman Group's fair value interest rate risk relates primarily to fixed-rate interest bearing loans to related parties and obligations under finance leases (see notes 16 and 23 for details).

True Yoga Cayman Group's cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (see notes 19 and 21 for details). True Yoga Cayman Group cash flow interest rate risk is mainly concentrated on the interest rates on bank balances and bank borrowings.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

True Yoga Cayman Group has not used any interest rate swaps to mitigate its exposure associated with interest rate risk. However, management monitors interest rate exposure and will consider necessary actions when significant interest rate exposure is anticipated.

True Yoga Cayman Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk.

The sensitivity analysis below has been determined based on the exposure to interest rates on True Yoga Cayman Group's bank borrowings at the end of the each of the reporting period and prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year/period. A 50 basis points increase or decrease is used by management for the assessment of the reasonably possible change in interest rates.

If interest rates on bank borrowings had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the years ended 31 December 2014, 2015 and 2016 and post-tax loss for the five months ended 31 May 2017 would decrease/increase by HK\$314,000, HK\$632,000, HK\$967,000 and increase/decrease by HK\$579,000, respectively. This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The management considers the exposure of interest rate risk over bank balances is not significant. Accordingly, no sensitivity analysis is presented.

Credit risk

At the end of each reporting period, the True Yoga Cayman Group's maximum exposure to credit risk which will cause a financial loss to the True Yoga Cayman Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the True Yoga Cayman Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of True Yoga Cayman consider that the True Yoga Cayman Group's credit risk is significantly reduced.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The directors of True Yoga Cayman consider that the concentration of credit risk on trade receivables is limited because True Yoga Cayman Group has considerable wide customer base and does not concentrate its transactions significantly with any single customer or in similar areas.

True Yoga Cayman Group has concentration risk on loans to related parties, amounts due from related parties and other financial assets during the Relevant Period. True Yoga Cayman Group will monitor the level of exposure to ensure that follow up actions and/or corrective actions are taken promptly to lower the risk exposure and the other financial assets are deposited with a bank with high credit rating.

The directors of True Yoga Cayman consider that the credit risk on loans to a related parties and amounts due from related parties are limited because the management regularly monitors the financial position of the related parties through involvement in either their management and operations as certain directors of True Yoga Cayman are the directors of the holding company of the related parties.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the directors of True Yoga Cayman, which has built an appropriate liquidity risk management framework for the management of True Yoga Cayman Group's short, medium and long-term funding and liquidity management requirements. True Yoga Cayman Group manages liquidity risk by maintaining adequate reserves and borrowing facilities.

The following tables detail the True Yoga Cayman Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the True Yoga Cayman Group can be required to pay. The maturity dates for the non-derivative financial liabilities are based on the agreed repayment dates.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Liquidity and interest risk tables

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	3 to 6 months HK\$'000	6 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
At 31 December 2014							
Trade and other payables	–	29,543	–	–	–	29,543	29,543
Obligations under finance leases	8.29	2,316	2,119	3,617	14,270	22,322	19,879
Amounts due to related parties	–	1,541	–	–	–	1,541	1,541
Bank borrowings	3.13	2,332	3,253	2,185	–	7,770	7,572
		<u>35,732</u>	<u>5,372</u>	<u>5,802</u>	<u>14,270</u>	<u>61,176</u>	<u>58,535</u>

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	3 to 6 months HK\$'000	6 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
At 31 December 2015							
Trade and other payables	–	19,773	–	–	–	19,773	19,773
Obligations under finance leases	8.04	1,966	1,966	3,931	8,056	15,919	14,497
Amounts due to related parties	–	180	–	–	–	180	180
Bank borrowings	2.66	3,173	3,155	3,391	5,912	15,631	15,221
		<u>25,092</u>	<u>5,121</u>	<u>7,322</u>	<u>13,968</u>	<u>51,503</u>	<u>49,671</u>

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	3 to 6 months HK\$'000	6 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
At 31 December 2016							
Trade and other payables	–	16,132	–	–	–	16,132	16,132
Obligations under finance leases	8.04	800	267	–	–	1,067	1,057
Bank borrowings	2.66	3,157	2,060	8,831	9,985	24,033	23,306
		<u>20,089</u>	<u>2,327</u>	<u>8,831</u>	<u>9,985</u>	<u>41,232</u>	<u>40,495</u>

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	3 to 6 months HK\$'000	6 months to 1 year HK\$'000	Over 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
At 31 May 2017							
Trade and other payables	–	12,889	–	–	–	12,889	12,889
Bank borrowings	2.81	11,384	6,141	6,358	10,197	34,080	33,456
		<u>24,273</u>	<u>6,141</u>	<u>6,358</u>	<u>10,197</u>	<u>46,969</u>	<u>46,345</u>

The amounts included above for variable interest rate instruments are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the Relevant Period.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Fair value

The directors of True Yoga Cayman consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information of True Yoga Cayman Group approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

32. Pledge of assets

The banking facilities and bank borrowings were secured by the True Yoga Cayman Group's assets as follows:

	As at 31 December			As at
	2014	2015	2016	31 May
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Plant and equipment	20,985	16,706	7,200	–

33. Particulars of subsidiaries

Company name	Place and date of incorporation/ establishment	Registered capital/ issued paid up capital	Attributable equity interest/voting right held by True Yoga Cayman Group				At date of report	Principal activities	Form of company
			At 31 December		As at 31 May				
			2014	2015	2016	2017			
True Concept Ltd.	The R.O.C 29 August 2005	TWD18,000,000	100	100	100	100	100 Provision of fitness and health training centres	Limited liability	
True Yoga (Xiamen) Co., Ltd.	Peoples Republic of China (the "PRC") 14 November 2011	USD700,000	100	100	100	–	– Provision of fitness and health training centres and wellness services	Limited liability	

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The statutory financial statements of True Concept Ltd. for the each of years ended 31 December 2014, 2015 and 2016 have been prepared in accordance with the provisions of the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the Financial Supervisory Commission, Republic of China (“R.O.C”). and were audited by KPMG, Taipei, R.O.C. in accordance with “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and the auditing standards generally accepted in the R.O.C.

The statutory financial statements of True Yoga (Xiamen) Co., Ltd. for each of the years ended 31 December 2014, 2015 and 2016 have been prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC and were audited by KPMG LLP in accordance with China Standards on Auditing for Certified Public Accountants.

34. Major non-cash transaction

Save as disclosed elsewhere in the Historical Financial Information of True Yoga Cayman Group, True Yoga Cayman Group has the following major non-cash transactions during the Relevant Period:

During the year ended 31 December 2014, True Yoga Cayman Group purchases plant and equipment amounting to HK\$22,994,000 under finance leases.

During the five months ended 31 May 2017, True Yoga Cayman Group waives the loan to CJ Group Pte. Ltd. and the amount due from CJ Group Pte. Ltd. amounting to HK\$25,202,000.

During the five months ended 31 May 2017, True Yoga Cayman Group disposes of its intangible assets amounting to HK\$6,760,000 to True Fitness Holdings (Singapore) Pte. Ltd. at cost which has been settled through the current account with it.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

35. Note to the statements of cash flows

Reconciliation of liabilities arising from financial activities:

The table below details changes in the True Yoga Cayman Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the True Yoga Cayman Group's consolidated statement of cash flows as cash flows from financing activities.

	Obligations under finance leases <i>HK\$'000</i>	Bank borrowings <i>HK\$'000</i>	Amounts due to related parties <i>HK\$'000</i>	Total liabilities from financing activities <i>HK\$'000</i>
At 1 January 2014	–	5,871	1,545	7,416
Financing cash flows (<i>Note</i>)	(2,895)	1,010	58	(1,827)
Finance costs	575	844	–	1,419
Non-cash changes				
New finance leases	22,994	–	–	22,994
Foreign exchange movement	(795)	(153)	(62)	(1,010)
At 31 December 2014	19,879	7,572	1,541	28,992
Financing cash flows (<i>Note</i>)	(5,940)	7,550	(1,354)	256
Finance costs	1,363	420	–	1,783
Non-cash changes				
Foreign exchange movement	(805)	(321)	(7)	(1,133)
At 31 December 2015	14,497	15,221	180	29,898
Financing cash flows (<i>Note</i>)	(14,012)	7,747	(180)	(6,445)
Finance costs	572	338	–	910
At 31 December 2016	1,057	23,306	–	24,363
Financing cash flows (<i>Note</i>)	(1,155)	10,270	–	9,115
Finance costs	10	278	–	288
Non-cash changes				
Disposal of a subsidiary	–	(2,340)	–	(2,340)
Foreign exchange movement	88	1,942	–	2,030
At 31 May 2017	–	33,456	–	33,456
For the five months ended				
31 May 2016 (unaudited)				
At 1 January 2016	14,497	15,221	180	29,898
Financing cash flows (<i>Note</i>)	(3,276)	(5,183)	(74)	(8,533)
Finance costs	443	149	–	592
At 31 May 2016 (unaudited)	11,664	10,187	106	21,957

Note: The cash flows from obligations under finance leases, bank borrowings and amounts due to related parties make up the net amount of proceeds received and repayments made in the consolidated statements of cash flows.

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**Deloitte.****德勤****To the Directors of Tongfang Kontafarma Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Tongfang Kontafarma Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 May 2017 and related notes as set out on pages III-4 to III-10 of the circular issued by the Company dated 28 July 2017 (the “Circular”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages III-4 to III-10 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the major transaction relating to acquisition of companies engaging in fitness businesses (the “Acquisition”) on the Group’s consolidated financial position as at 31 December 2016 as if the Acquisition had taken place at 31 December 2016. As part of this process, information about the Group’s consolidated financial position has been extracted by the Directors from the Group’s consolidated financial statements for the year ended 31 December 2016, on which an auditor’s report has been published.

Directors’ Responsibilities for the Unaudited Pro Forma Financial Information

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

Our Independence and Quality Control

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

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

Reporting Accountants’ Responsibilities

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

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

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

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and

- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 July 2017

**A. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL
POSITION OF THE ENLARGED GROUP****(I) Basis of Preparation**

The following is the unaudited pro forma consolidated statement of financial position of the Enlarged Group (the “Unaudited Pro Forma Consolidated Statement of Financial Position”) which has been prepared by the Directors of the Company in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of the Acquisition as if the Acquisition had been completed on 31 December 2016.

The Unaudited Pro Forma Consolidated Statement of Financial Position has been prepared using the accounting policies consistent with those of the Group as set out in the published annual report of the Company for the year ended 31 December 2016.

The Unaudited Pro Forma Consolidated Statement of Financial Position is prepared based on (i) the audited consolidated statement of financial position of the Group as at 31 December 2016 which has been extracted from the published annual report of the Company for the year ended 31 December 2016; and (ii) the audited consolidated statement of financial position of True Fitness Pte. Ltd. and its subsidiary as at 31 May 2017, the audited statement of financial position of True Yoga Pte. Ltd. as at 31 May 2017 and assets and liabilities of True Yoga (Xiamen) Co., Ltd. as at 31 May 2017 as extracted from the accountants’ reports set out in Appendix II to this circular, after making unaudited pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition; and (ii) factually supportable as if the Acquisition had been undertaken as at 31 December 2016.

The Unaudited Pro Forma Consolidated Statement of Financial Position has been prepared by the Directors based on a number of assumptions, estimates and uncertainties for illustrative purposes only and because of its nature, it may not give a true picture of the consolidated financial position of the Enlarged Group as at 31 December 2016 or any future dates. Accordingly, the Unaudited Pro Forma Consolidated Statement of Financial Position does not purport to describe the consolidated financial position of the Enlarged Group that would have been attained had the Acquisition been completed as at 31 December 2016, nor purport to predict the future consolidated financial position of the Enlarged Group.

APPENDIX III

UNAUDITED PRO FORMA CONSOLIDATED
FINANCIAL INFORMATION OF THE ENLARGED GROUP

(II) Unaudited Pro Forma Consolidated Statement of Financial Position

	Pro forma adjustments								The Enlarged Group HK\$'000
	The Group as at 31 December 2016 HK\$'000 Note 1	True Fitness Pte. Ltd. and its subsidiary as at 31 May 2017 HK\$'000 Note 2	True Yoga Pte. Ltd. as at 31 May 2017 HK\$'000 Note 2	True Yoga (Xiamen) Co., Ltd. as at 31 May 2017 HK\$'000 Note 2	Pro forma adjustments				
					HK\$'000 Note 3	HK\$'000 Note 4	HK\$'000 Note 5	HK\$'000 Note 6	
Non-current assets									
Property, plant and equipment	552,204	60,289	152	9,773	-	-	-	-	622,418
Deposits for equipment and machineries	76,279	-	-	-	-	-	-	-	76,279
Prepaid lease payments on land use rights	104,378	-	-	-	-	-	-	-	104,378
Investment properties	5,066	-	-	-	-	-	-	-	5,066
Goodwill	217,555	-	-	-	-	219,417	-	-	436,972
Intangible assets	15,675	-	-	-	-	307,585	-	-	323,260
Interests in an associate	2,601	-	-	-	-	21,640	-	-	24,241
Interests in a joint venture	32,759	-	-	-	-	-	-	-	32,759
Deferred tax assets	199	-	-	845	-	-	-	-	1,044
Rental deposits	-	8,744	3,559	1,150	-	-	-	-	13,453
Pledged bank deposits	-	2,162	-	-	-	-	-	-	2,162
	1,006,716	71,195	3,711	11,768	-	548,642	-	-	1,642,032
Current assets									
Properties held for sale	2,161	-	-	-	-	-	-	-	2,161
Biological assets	2,743	-	-	-	-	-	-	-	2,743
Inventories	78,488	-	-	-	-	-	-	-	78,488
Trade and bills receivables	347,989	1,388	437	93	-	-	-	-	349,907
Other receivables, deposits and prepayments	141,028	3,009	680	1,687	-	-	-	-	146,404
Loans receivable	167,264	-	-	-	-	-	-	-	167,264
Financial assets at fair value through profit or loss	120,504	-	-	-	-	-	-	-	120,504
Prepaid lease payments on land use rights	1,499	-	-	-	-	-	-	-	1,499
Amount due from an intermediate holding company	89,385	-	-	-	-	-	-	-	89,385
Amount due from a joint venture	131	-	-	-	-	-	-	-	131
Amounts due from other related parties	168,865	214,192	-	-	(214,192)	-	-	-	168,865
Restricted bank deposit	2,518	-	-	-	-	-	-	-	2,518
Pledged short-term bank deposits	421,416	-	-	-	-	-	-	-	421,416
Time deposits with original maturity between 4 to 12 months	22,347	-	-	-	-	-	-	-	22,347
Cash and cash equivalents	581,137	6,487	1,271	2,982	-	(284,580)	(6,500)	-	300,797
	2,147,475	225,076	2,388	4,762	(214,192)	(284,580)	(6,500)	-	1,874,429
Current liabilities									
Trade and bills payables	175,428	-	-	2,081	-	-	-	-	177,509
Other payables, accruals and deposits received	86,346	29,062	7,249	2,550	-	-	-	-	125,207
Amount due to an intermediate holding company	24,230	-	-	-	-	-	-	-	24,230
Amounts due to other related parties	9,528	174	214,192	-	(214,192)	-	-	-	9,702
Tax liabilities	91,385	-	-	-	-	-	-	-	91,385
Bank and other borrowings due within one year	916,313	3,161	-	2,346	-	-	-	-	921,820
Obligations under finance leases	-	2,513	181	-	-	-	-	-	2,694
Obligation arising from a put option to non-controlling shareholder	-	-	-	-	-	-	-	81,900	81,900
Deferred income	-	137,833	15,151	12,771	-	(45,019)	-	-	120,736
Provision for financial guarantee	-	24,565	-	-	-	-	-	-	24,565
	1,303,230	197,308	236,773	19,748	(214,192)	(45,019)	-	81,900	1,579,748
Net current assets (liabilities)	844,245	27,768	(234,385)	(14,986)	-	(239,561)	(6,500)	(81,900)	294,681
Total assets less current liabilities	1,850,961	98,963	(230,674)	(3,218)	-	309,081	(6,500)	(81,900)	1,936,713

APPENDIX III

UNAUDITED PRO FORMA CONSOLIDATED
FINANCIAL INFORMATION OF THE ENLARGED GROUP

	Pro forma adjustments								The Enlarged Group HK\$'000
	The Group as at 31 December 2016 HK\$'000 Note 1	True Fitness Pte. Ltd. and its subsidiary as at 31 May 2017 HK\$'000 Note 2	True Yoga Pte. Ltd. as at 31 May 2017 HK\$'000 Note 2	True Yoga (Xiamen) Co., Ltd. as at 31 May 2017 HK\$'000 Note 2	HK\$'000 Note 3	HK\$'000 Note 4	HK\$'000 Note 5	HK\$'000 Note 6	
Capital and reserves									
Share capital	9,900	23,378	455	3,549	-	(27,382)	-	-	9,900
Share premium and reserve	1,115,934	1,613	(244,472)	(6,938)	-	249,797	(6,500)	-	1,109,434
Equity attributable to owners of the Company	1,125,834	24,991	(244,017)	(3,389)	-	222,415	(6,500)	-	1,119,334
Non-controlling interest	517,229	-	-	-	-	41,817	-	(81,900)	477,146
Total equity	1,643,063	24,991	(244,017)	(3,389)	-	264,232	(6,500)	(81,900)	1,596,480
Non-current liabilities									
Bank and other borrowings due after one year	163,128	361	-	-	-	-	-	-	163,489
Deferred taxation	44,770	-	-	-	-	63,372	-	-	108,142
Obligations under finance leases	-	1,967	453	-	-	-	-	-	2,420
Provision of reinstatement cost	-	14,913	1,606	-	-	-	-	-	16,519
Deferred income	-	56,731	11,284	171	-	(18,523)	-	-	49,663
	207,898	73,972	13,343	171	-	44,849	-	-	340,233
	<u>1,850,961</u>	<u>98,963</u>	<u>(230,674)</u>	<u>(3,218)</u>	<u>-</u>	<u>309,081</u>	<u>(6,500)</u>	<u>(81,900)</u>	<u>1,936,713</u>

(III) Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The figures are extracted from the audited consolidated statement of financial position of the Group as at 31 December 2016 as set out in the published annual report of the Company for the year ended 31 December 2016.
2. The figures are extracted from the audited consolidated statement of financial position of True Fitness Pte. Ltd. and its subsidiary as at 31 May 2017 and the audited statement of financial position of True Yoga Pte. Ltd. as at 31 May 2017 respectively as set out in Appendix II to this circular. The figures of assets and liabilities of True Yoga (Xiamen) Co., Ltd. as at 31 May 2017 are extracted from the accountants' report of True Yoga Holdings Limited as set out in Appendix II to this circular.
3. The adjustments represent the elimination of intercompany balances between True Fitness Pte. Ltd. and its subsidiary, and True Yoga Pte. Ltd.
4. Upon completion of the Acquisition, the identifiable assets and liabilities of True Fitness Pte. Ltd. and its subsidiary, True Yoga Pte. Ltd and True Yoga (Xiamen) Co., Ltd. (collectively referred to as "True Group") acquired by Fester Global Limited, an indirect wholly-owned subsidiary of the Company, will be accounted for at fair value under the acquisition method of accounting in accordance with HKFRS 3 Business Combinations. The 29% equity interest in True Yoga Holdings Limited acquired by the Group will be accounted for as an interest in an associate using equity method of accounting.

For the purpose of the preparation of the Unaudited Pro Forma Consolidated Statement of Financial Position, the adjustments represent (i) the elimination of True Group's capital and reserves at the date of acquisition of True Group; and (ii) the inclusion of fair value adjustments resulted from the allocation of the pro forma purchase consideration to True Group's identifiable assets and liabilities acquired, as if the Acquisition had taken place on 31 December 2016.

The pro forma purchase price allocation to the identifiable assets and liabilities of True Group has been based on a valuation carried out by the management with the assistance from an independent valuer, with respect to certain major assets to be acquired and certain major liabilities to be assumed. For the purpose of preparing the Unaudited Pro Forma Consolidated Statement of Financial Position, the Directors assumed that apart from the assets and liabilities subject to the pro forma fair value adjustments stated in notes (i) and (ii) below, the pro forma fair values of the remaining identifiable assets and liabilities of True Group are approximate to their respective carrying amounts as at 31 May 2017.

	<i>HK\$'000</i>
Consideration	284,580*
Carrying amount of net liabilities acquired	222,415
Pro forma fair value adjustment to intangible assets (<i>note i</i>)	(307,585)
Pro forma fair value adjustment to deferred income (<i>note ii</i>)	(63,542)
Deferred tax liabilities arising from pro forma fair value adjustment to intangible assets and deferred income (<i>notes i and ii</i>)	63,372
Non-controlling interest	41,817
Interest in an associate (<i>note iii</i>)	<u>(21,640)</u>
Goodwill arising from the Acquisition	<u><u>219,417</u></u>

* *Cash consideration of US\$36,720,000 translated to HK\$ at US\$1 : HK\$7.75.*

(*Note i*) The pro forma fair value adjustments to intangible assets mainly related to the recognition of franchise agreement, trademark and customer relationship. The valuation has been carried out by Greater China Appraisal Limited, an independent qualified professional valuer not connected with the Group. Greater China Appraisal Limited is a member of The Hong Kong Institute of Surveyors.

Upon completion of the Acquisition, True Fitness Holdings (Singapore) Pte. Ltd., an indirectly non-wholly owned subsidiary of the Company, grants and provides True Yoga Holdings Limited and its subsidiary, True Concept Ltd., with non-exclusive rights to operate the franchise business in Taiwan for a term of 30 years and True Concept Ltd. shall pay a monthly franchise fee. The monthly franchise fee is equivalent to 15% of the gross turnover of the immediately preceding month. The franchise fee shall be adjusted to 17.5% if the gross turnover exceeds SG\$7,500,000 (equivalent to HK\$41,325,000) per month. The pro forma fair value of the franchise agreement is estimated at HK\$196,576,000.

The pro forma fair value of trademark is estimated at HK\$93,475,000 based on royalty savings, i.e., cost of licensing the intangible asset from an independent third party, to be realised in the future by owning the intangible asset.

The remaining amount in aggregate of HK\$17,534,000 represents the pro forma fair value of customer relationship.

The deferred tax liabilities relating to the pro forma fair value adjustment of intangible assets amounted to HK\$52,289,000, which is calculated at the 17% income tax rate of True Fitness Holdings (Singapore) Pte. Ltd., an indirectly non-wholly owned subsidiary of the Company.

The Directors have assessed whether there is any impairment on the intangible asset with indefinite useful life (i.e. trademark) and goodwill arising from the Acquisition as if the Acquisition had been taken place on 31 December 2016 in accordance with HKAS 36 Impairment of Assets (“HKAS 36”) and concluded that there is no impairment in respect of the intangible asset with indefinite useful life and goodwill. The recoverable amount of the cash generating unit comprising these pro forma intangible asset and goodwill is determined based on value in use calculation. The calculation uses cash flow forecast based on the most recent financial budget of the cash generating unit for the next five years approved by the management of True Group. Key assumptions of the value in use calculations of the cash generating unit relate to the estimation of cash inflows or outflows which include budgeted gross margins and operating expenses. Such estimation is based on the cash generating unit’s past performance and the management’s expectations for the market development.

The Directors confirmed that they will adopt consistent approach to assess impairment of intangible asset and goodwill in subsequent reporting periods in accordance with the requirements of HKAS 36 and will disclose in the Group’s annual report the basis and assumptions adopted by the Directors in the impairment assessment in accordance with the disclosure requirements in HKAS 36. The Company also confirmed with its auditors that they will audit and opine on the consolidated financial statements of the Group in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

(Note ii) The carrying amount of the deferred income of True Group is HK\$233,941,000 as at 31 May 2017. After performing a valuation of such balance by Greater China Appraisal Limited, the fair value is estimated to be HK\$170,399,000.

The deferred tax liability in relation to the pro forma fair value adjustment of deferred income amounted to HK\$10,207,000 and HK\$876,000 which is calculated at the 17% income tax rate of True Fitness Pte. Ltd. and its subsidiary and True Yoga Pte. Ltd. and 25% income tax rate of True Yoga (Xiamen) Co., Ltd., respectively.

(Note iii) The amount represents the allocated consideration for acquiring the 29% shareholding of True Yoga Holdings Limited, determined based on a valuation carried out by the management with the assistance from Greater China Appraisal Limited by reference of the discounted cash flow of the True Yoga Holdings Limited.

5. The adjustment is made to reflect the estimated transaction expense, such as legal and professional fees of approximately HK\$6.5 million incurred that directly attributable to the Acquisition.

6. For the preparation of the unaudited pro forma consolidated financial information of the Enlarged Group, the put option granted to Active Gains Universal Limited, a non-controlling shareholder of TFKT True Holdings, with an exercise price of US\$10,800,000, which will be settled other than by exchange of fixed amount of cash for a fixed number of shares in TFKT True Holdings (“Put Option”), is treated as a derivative and is recognised at fair value upon initial recognition. The Directors estimated that the derivative is insignificant at initial recognition on the basis that the forecasted Audited Net Income in the 2017 Accounts is possibly to be less than US\$7,380,000. Any changes in fair value in subsequent reporting periods would be recognised in profit or loss. Details of the Put Option are set out in the section headed “Letter from the Board” of this circular. The gross financial liability arising from the Put Option is recognised when contractual obligation to purchase the shares in TFKT True Holdings is established even if the obligation is conditional on Active Gains Universal Limited exercising a right to sell the shares to Fester Global Limited. The liability for the share redemption amount is initially recognised and measured at present value of the estimated purchase price with the corresponding debit to the non-controlling interests. In subsequent periods, effective interest on the estimated gross obligation under the written Put Option to Active Gains Universal Limited is recognised in profit or loss.

1. TRUE FITNESS GROUP

For the five months ended 31 May 2017

Business review

True Fitness, together with its subsidiaries (“True Fitness Group”) is a premium fitness and yoga provider in Singapore. Established in late 2004 in Singapore, the brand has established its presence in three countries across Singapore, Taiwan and China. In Singapore, True Fitness Group has a total of eight centres across the island with a total combined area of 180,000 square feet of fitness and yoga facilities, offering its members state-of-the art facilities and a varied array of group exercise, yoga and spinning classes to cater to their fitness needs.

Three types of memberships/packages are offered which is recorded as deferred income:

(1) *Pre-paid Term membership packages:*

Fitness & Yoga members pay a lump sum based on the term of the contract (12, 24, 36 and 60 months).

(2) *Monthly Dues membership packages:*

Fitness & Yoga members sign a membership with contracted term (eg 12, 24 or 36 months) and pay fees on a monthly basis.

(3) *Personal training:*

Members sign up and pay upfront in full for 1-on-1 training sessions with professional fitness trainers (12, 24, 30, or more etc).

Results

For the five months ended 31 May 2017, True Fitness Group recorded turnover of approximately HK\$113.1 million, representing an increase of approximately 8.8% as compared with the five months period ended 31 May 2016. Such increase was mainly attributable to the establishment of a new club.

For the five months ended 31 May 2017, True Fitness Group’s net profit from continuing operations was approximately HK\$5.0 million, representing a decrease of approximately 55.9% as compared with the five months period ended 31 May 2016 despite an increase in turnover as described above. This decrease is attributable mainly to the lower margin resulting from the start-up phase of the new club that was opened in December 2016.

Liquidity and financial position

As at 31 May 2017, True Fitness Group's current assets amounted to approximately HK\$225.1 million, which included cash and cash equivalents of approximately HK\$6.5 million. Current liabilities amounted to approximately HK\$197.3 million. Net current assets amounted to approximately HK\$27.8 million. True Fitness Group's current ratio was approximately 1.14.

The gearing ratio (defined as loans, borrowings and finance lease liabilities divided by the equity attributable to equity shareholders of Group) was approximately 0.32 as at 31 May 2017.

As at 31 May 2017, True Fitness Group recorded trade receivables of approximately HK\$1.4 million. There is no material fluctuation as compared to previous corresponding period.

As at 31 May 2017, True Fitness Group recorded other payables of approximately HK\$19.2 million. The increase in other payables was mainly due to timing of repayment to creditors as compared to previous corresponding period.

Capital structure and pledge of assets

The directors of True Fitness Group reviewed the capital structure of True Fitness Group regularly and managed the capital structure, taking into consideration, among other things, the future capital requirements, the projected cash flows and the projected capital expenditures of True Fitness Group.

As at 31 May 2017, the capital requirement of True Fitness Group was funded by internal resources and debts.

As at 31 May 2017, True Fitness Group had term and bank loans and finance lease of approximately HK\$8.0 million (subject to fixed and floating interest rate) which are repayable on monthly basis and secured by a director's personal guarantee. In addition, DBS Bank Ltd had all charge on the fixed deposit(s) place with them from time to time. Save as disclosed, no other asset was pledged by True Fitness Group.

Contingent liabilities

As at 31 May 2017, True Fitness Group did not have any contingent liability.

Employees and remuneration policies

As at 31 May 2017, True Fitness Group had 260 full-time employees, whose total emoluments for the five months ended 31 May 2017 were approximately HK\$48.3 million. Remuneration packages for employees are reviewed on a regular basis and principally comprised salaries, wages, contributions to defined contribution retirement plan and other benefits.

Significant investments held

As at 31 May 2017, True Fitness Group does not have any investment.

Material acquisition and disposal of subsidiaries and associated companies

For the five months ended 31 May 2017, True Fitness Group does not have any material acquisition and disposal of subsidiaries and associated companies.

Future plan for material investments

As at 31 May 2017, True Fitness Group does not have any future plan for material investments.

For the year ended 31 December 2016***Results***

For the year ended 31 December 2016, True Fitness Group recorded turnover of approximately HK\$257.5 million, representing an increase of approximately 1.87% as compared with the previous year.

For the year ended 31 December 2016, True Fitness Group's net profit from continuing operations was approximately HK\$0.4 million, representing a decrease of approximately 95.21% as compared with the previous year despite an increase in turnover as described above. This is contributed by the provision of a one-off financial guarantee of HK\$21.8 million granted to a third party in respect of loan facilities amounting to THB100 million granted to a related parties. At the reporting date, a loan amount of THB64.3 million is outstanding. Management of True Fitness Group has determined that the related parties are not financially capable of repaying the loan, thus a provision of the guarantee amount and accrued interest of 15% per annum compounded annually from the last interest repayment date has been recognised by True Fitness Group. At the reporting date, the accrued interest amounted to THB37.0 million. The restated net profit from continuing operations, excluding the one-off provision of the financial guarantee, was approximately HK\$22.9 million. This represents an increase of approximately 158.9% as compared with the previous year.

Liquidity and financial position

As at 31 December 2016, True Fitness Group's current assets amounted to approximately HK\$228.6 million, which included cash and cash equivalents of approximately HK\$3.5 million. Current liabilities amounted to approximately HK\$209.2 million. Net current assets amounted to approximately HK\$19.5 million. True Fitness Group's current ratio was approximately 1.09.

The gearing ratio (defined as loans, borrowings and finance lease liabilities divided by the equity attributable to equity shareholders of True Fitness) was approximately 0.21 as at 31 December 2016.

As at 31 December 2016, True Fitness Group recorded trade receivables of approximately HK\$1.9 million. There is no material fluctuation as compared to previous year.

As at 31 December 2016, True Fitness recorded other payables of approximately HK\$16.5 million. The decrease in other payables was mainly due to faster repayment to creditors as compared to previous year.

Capital structure and pledge of assets

The directors of True Fitness reviewed the capital structure of the True Fitness Group regularly and managed the capital structure, taking into consideration, among other things, the future capital requirements, the projected cash flows and the projected capital expenditures of True Fitness Group.

As at 31 December 2016, the capital requirement of True Fitness Group was funded by internal resources and debts.

As at 31 December 2016, True Fitness Group had term and bank loans and finance lease of approximately HK\$4.2 million (subject to fixed and floating interest rate) which are repayable on monthly basis and secured by a director's personal guarantee. In addition, DBS Bank Ltd had all charge on the fixed deposit(s) place with them from time to time. Save as disclosed, no other asset was pledged by True Fitness Group.

Contingent liabilities

As at 31 December 2016, True Fitness Group did not have any contingent liability.

Employees and remuneration policies

As at 31 December 2016, the True Fitness Group had 280 full-time employees, whose total emoluments for the year ended 31 December 2016 were approximately HK\$107.5 million. Remuneration packages for employees are reviewed on a regular basis and principally comprised salaries, wages, contributions to defined contribution retirement plan and other benefits.

Significant investments held

As at 31 December 2016, True Fitness Group does not have any investment.

Material acquisition and disposal of subsidiaries and associated companies

For the year ended 31 December 2016, True Fitness Group does not have any material acquisition and disposal of subsidiaries and associated companies.

Future plan for material investments

For the year ended 31 December 2016, True Fitness Group does not have any future plan for material investments.

For the year ended 31 December 2015***Results***

For the year ended 31 December 2015, True Fitness Group recorded turnover of approximately HK\$252.8 million, representing a decrease of approximately 7.85% as compared with the previous year. The decrease was mainly attributable to the temporary closure of a club in October 2015 pending on a relocation plan and a decrease in corporate sales.

For the year ended 31 December 2015, True Fitness Group's net profit from continuing operations was approximately HK\$9.0 million, representing a decrease of approximately 31.5% as compared with the previous year, which was mainly due to the temporary closure of a club and a decrease in corporate sales as described above.

Liquidity and financial position

As at 31 December 2015, the True Fitness Group's current assets amounted to approximately HK\$50.4 million, which included cash and cash equivalents and deposits with banks of approximately HK\$3.0 million. Current liabilities amounted to approximately HK\$197.9 million. Net current liabilities amounted to approximately HK\$147.5 million. True Fitness Group's current ratio was approximately 0.25.

The gearing ratio (defined as loans, borrowings and finance lease liabilities divided by the equity attributable to equity shareholders of True Fitness) was approximately 1.87 as at 31 December 2015.

As at 31 December 2015, True Fitness Group recorded trade receivables of approximately HK\$2.0 million. The decrease is due mainly to step up collection efforts to reduce the trade receivables.

As at 31 December 2015, True Fitness Group recorded other payables of approximately HK\$27.1 million. The decrease in other payables was mainly due to faster repayment to creditors as compared to previous year.

Capital structure and pledge of assets

The directors of True Fitness reviewed the capital structure of True Fitness Group regularly and managed the capital structure, taking into consideration, among other things, the future capital requirements, the projected cash flows and the projected capital expenditures of True Fitness Group.

As at 31 December 2015, the capital requirement of True Fitness Group was funded by internal resources and debts.

As at 31 December 2015, True Fitness Group had term and bank loans and finance lease of approximately HK\$11.9 million (subject to fixed and floating interest rate) which are repayable on monthly basis and secured by a director's personal guarantee. In addition, DBS Bank Ltd had all charge on the fixed deposit(s) place with them from time to time. Save as disclosed, no other asset was pledged by True Fitness Group.

Contingent liabilities

As at 31 December 2015, True Fitness Group has granted a financial guarantee to a third party in respect of loan facilities amounting to THB100,000,000, equivalent of HK\$21.4 million granted to related parties. At the reporting date, True Fitness Group does not consider it probable that a claim will be made against True Fitness Group under the guarantee.

Employees and remuneration policies

As at 31 December 2015, True Fitness Group had 267 full-time employees, whose total emoluments for the year ended 31 December 2015 were approximately HK\$104.5 million. Remuneration packages for employees are reviewed on a regular basis and principally comprised salaries, wages, contributions to defined contribution retirement plan and other benefits.

Significant investments held

As at 31 December 2015, True Fitness Group does not have any investment.

Material acquisition and disposal of subsidiaries and associated companies

For the year ended 31 December 2015, True Fitness Group does not have any material acquisition and disposal of subsidiaries and associated companies.

For the year ended 31 December 2014***Results***

For the year ended 31 December 2014, True Fitness Group recorded turnover of approximately HK\$274.3 million, representing an increase of approximately 15.03% as compared with the previous year. The increase was mainly attributable to the increase in membership sign ups from the re-opening of Suntec club and new club Ang Mo Kio which are fully operational in financial year 2014.

For the year ended 31 December 2014, True Fitness Group's net profit from continuing operations was approximately HK\$13.2 million, representing an increase of approximately 422% as compared with the previous year as a result of the increase in turnover as described above and other income increase attributable to certain government grants.

Liquidity and financial position

As at 31 December 2014, True Fitness Group's current assets amounted to approximately HK\$38.0 million, which included cash and cash equivalents and deposits with banks of approximately HK\$2.5 million. Current liabilities amounted to approximately HK\$191.5 million. Net current liability amounted to approximately HK\$153.5 million. True Fitness Group's current ratio was approximately 0.20.

The gearing ratio (defined as loans, borrowings and finance lease liabilities divided by the equity attributable to equity shareholders of True Fitness) was approximately 10.8 as at 31 December 2014.

As at 31 December 2014, True Fitness Group recorded trade receivables of approximately HK\$3.4 million. The decrease is due mainly to a one off trade receivables from a corporate client of HK\$16.1 million billed in the preceding year collected in year 2014.

As at 31 December 2014, True Fitness Group recorded other payables of approximately HK\$40.8 million. There is no material fluctuation as compared to previous year.

Capital structure and pledge of assets

The directors of True Fitness reviewed the capital structure of True Fitness Group regularly and managed the capital structure, taking into consideration, among other things, the future capital requirements, the projected cash flows and the projected capital expenditures of True Fitness Group.

As at 31 December 2014, the capital requirement of True Fitness Group was funded by internal resources and debts.

As at 31 December 2014, True Fitness Group had term and bank loans and finance lease of approximately HK\$13.5 million (subject to fixed and floating interest rate) which are repayable on monthly basis and secured by a director's personal guarantee. In addition, DBS Bank Ltd had all charge on the fixed deposit(s) place with them from time to time. Save as disclosed, no other asset was pledged by True Fitness Group.

Contingent liabilities

As at 31 December 2014, True Fitness Group has granted a financial guarantee to a third party in respect of loan facilities amounting to THB100,000,000, equivalent of HK\$23.5 million granted to related parties. At the reporting date, True Fitness Group does not consider it probable that a claim will be made against True Fitness Group under the guarantee.

Employees and remuneration policies

As at 31 December 2014, True Fitness Group had 258 full-time employees, whose total emoluments for the year ended 31 December 2014 were approximately HK\$106.5 million. Remuneration packages for employees are reviewed on a regular basis and principally comprised salaries, wages, contributions to defined contribution retirement plan and other benefits.

Significant investments held

As at 31 December 2014, True Fitness Group does not have any investment.

Material acquisition and disposal of subsidiaries and associated companies

For the year ended 31 December 2014, True Fitness Group does not have any material acquisition and disposal of subsidiaries and associated companies.

Government grants

During the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017, the following government grants are recognised:

Scheme	Nature of the grants	Conditions	Recurring/ one-off
Productivity and Innovation Credit Scheme ("PIC")	PIC, administered under the Inland Revenue Authority of Singapore ("IRAS"), allows business to enjoy 400% tax deductions up to SGD400,000 or 60% cash pay out up to SGD100,000, for investments in innovation and productivity improvements.	The six activities covered under PIC are: <ol style="list-style-type: none"> 1) Acquisition and leasing of PIC information technology and automation equipment 2) Training of employees 3) Acquisition and licensing of intellectual property rights 4) Registration of patents, trademarks, designs and plant varieties 5) Research and development activities 6) Design projects approved by Design Singapore Council 	Recurring from 2010 to 2017
Special Employment Credit ("SEC")	SEC, administered by Central Provident Fund Board ("CPF") is to support employers to cope with higher costs associated with employment of older workers.	SEC provide a wage-offset to employers hiring Singaporean workers aged 55 and above, and earning up to SGD4,000. <ul style="list-style-type: none"> • First, those aged 65 and above but below 67 and not covered by the new re-employment age of 67. • Second, those beyond the new re-employment age of 67. 	Recurring from 2012 to 2016
Temporary Employment Credit ("TEC")	TEC, administered by CPF, is to help employer to cope with the 1 percentage point increase in Medisave contribution rates.	With the TEC, employer will receive a one-year offset of 0.5% of wages for Singaporean and Singapore permanent resident employees in 2015. <p>TEC will be further enhanced and extended to help companies adjust to the cost increases associated with:</p> <ul style="list-style-type: none"> • 1% increase in employer CPF contribution rates for older workers. • Increase in the CPF salary ceiling. 	Recurring from 2015 to 2017

Scheme	Nature of the grants	Conditions	Recurring/ one-off
Wage Credit Scheme (“WCS”)	WCS is administered by IRAS. The government will co-fund 20% to 40% of wage increases given to Singapore citizen employees earning a gross monthly wage of SGD4,000 and below.	<p>All employers paying wage increases in 2013 – 2017 to Singapore Citizen employees who:</p> <ul style="list-style-type: none"> a. Are earning a gross monthly wage of SGD4,000 and below; b. Received CPF contributions from a single employer for at least 3 calendar months in the preceding year 1; c. Have been on the employer’s payroll for at least 3 calendar months in the qualifying year 2 (i.e. employer must have paid employee CPF contributions for at least three calendar months in qualifying year); d. Have at least SGD50 gross monthly wage increase; and e. Must not also be the business owner of the same entity (i.e. sole proprietor of the sole proprietorship, or a partner of the partnership, or both a shareholder and director of a company). 	Recurring from 2013 to 2017

2. TRUE YOGA

For the five months ended 31 May 2017

Business review

True Yoga is a premium fitness and yoga provider in Singapore. Established in late 2004 in Singapore, the brand has established its presence in 3 countries across Singapore, Taiwan and China. In Singapore, the Group has a total of 2 centres across the island with a total combined area of 18,000 square feet of fitness and yoga facilities, offering our members state-of-the art facilities and a varied array of group exercise and yoga classes to cater to their fitness needs.

Three types of memberships/packages are offered which is recorded as deferred income:

(1) *Pre-paid Term membership packages:*

Fitness & Yoga members pay a lump sum based on the term of the contract (12, 24, 36 and 60 months).

(2) *Monthly Dues membership packages:*

Fitness & Yoga members sign a membership with contracted term (eg 12, 24 or 36 months) and pay fees on a monthly basis.

Results

For the five months ended 31 May 2017, True Yoga recorded turnover of approximately HK\$13.2 million, representing a decrease of approximately 33.2% as compared with the five months period ended 31 May 2016. The decrease was mainly attributable to the closure of Ocean Financial centre club in March 2016.

True Yoga recorded net loss of approximately HK\$7.3 million compared with the net loss of approximately HK\$7.7 million for the five months period ended 31 May 2016.

Liquidity and financial position

As at 31 May 2017, True Yoga's current assets amounted to approximately HK\$2.4 million, which included cash and cash equivalents of approximately HK\$1.3 million. Current liabilities amounted to approximately HK\$236.8 million. Net current liabilities amounted to approximately HK\$234.4 million. True Yoga's current ratio was approximately 0.01.

The gearing ratio (defined as borrowings and finance lease divided by the equity attributable to equity shareholders of True Yoga) was approximately -0.003 as at 31 May 2017.

As at 31 May 2017, True Yoga recorded trade receivables of approximately HK\$0.4 million. There is no material fluctuation as compared to previous corresponding period.

As at 31 May 2017, True Yoga recorded other payables of approximately HK\$2.7 million. The decrease in other payables was mainly due to faster repayment to creditors as compared to previous corresponding period.

Capital structure and pledge of assets

The directors of True Yoga reviewed the capital structure of True Yoga regularly and managed the capital structure, taking into consideration, among other things, the future capital requirements, the projected cash flows and the projected capital expenditures of True Yoga.

As at 31 May 2017, the capital requirement of True Yoga was funded by internal resources and debts.

As at 31 May 2017, True Yoga had finance lease of approximately HK\$0.6 million (subject to fixed interest rate) which are repayable on monthly basis.

As at 31 May 2017, no asset was pledged by True Yoga.

Contingent liabilities

As at 31 May 2017, True Yoga did not have any contingent liability.

Employees and remuneration policies

As at 31 May 2017, True Yoga had 97 full-time employees, whose total emoluments for the five months ended 31 May 2017 were approximately HK\$19.7 million. Remuneration packages for employees are reviewed on a regular basis and principally comprised salaries, wages, contributions to defined contribution retirement plan and other benefits.

Significant investments held

As at 31 May 2017, True Yoga does not have any investment.

Material acquisition and disposal of subsidiaries and associated companies

For the five months ended 31 May 2017, True Yoga does not have any material acquisition and disposal of subsidiaries and associated companies.

Waiver of intra-group balances

As condition of the deal, on or before the Completion Date, save for certain loans agreed between the parties to be retained, all loans or other indebtedness due or owing by any member of the Target Group (including intra-group loans) are cleared so that the Target Group can be delivered free of debt upon Completion. Thus, all intra-group balances were waived before the completion of the transaction. Accordingly, before the Completion Date, pursuant to the agreement between True Yoga and its immediate holding company at that time, CJ Group Pte. Ltd., True Yoga waives the amount due from CJ Group Pte. Ltd. of SGD783,000 (equivalent to HK\$4,410,000).

Future plan for material investments

For the five months ended 31 May 2017, True Yoga does not have any future plan for material investments.

For the year ended 31 December 2016***Results***

For the year ended 31 December 2016, True Yoga recorded turnover of approximately HK\$41.5 million, representing a decrease of approximately 20.6% as compared with the previous year. The decrease was mainly attributable to the closure of Ocean Financial centre club in March 2016.

True Yoga recorded net loss of approximately HK\$15.7 million compared with a net loss of approximately HK\$25.1 million of the previous year as a result of the decrease in turnover as described above.

Liquidity and financial position

As at 31 December 2016, True Yoga's current assets amounted to approximately HK\$5.0 million, which included cash and cash equivalents of approximately HK\$2.2 million. Current liabilities amounted to approximately HK\$216.9 million. Net current liabilities amounted to approximately HK\$211.9 million. True Yoga's current ratio was approximately 0.02.

The gearing ratio (defined as borrowings and finance lease divided by the equity attributable to equity shareholders of True Yoga) was approximately -0.003 as at 31 December 2016.

As at 31 December 2016, True Yoga recorded trade receivables of approximately HK\$0.7 million. There is no material fluctuation as compared to previous year.

As at 31 December 2016, True Yoga recorded other payables of approximately HK\$3.4 million. The decrease in other payables was mainly due to faster repayment to creditors as compared to previous year.

Capital structure and pledge of assets

The directors of True Yoga reviewed the capital structure of True Yoga regularly and managed the capital structure, taking into consideration, among other things, the future capital requirements, the projected cash flows and the projected capital expenditures of True Yoga.

As at 31 December 2016, the capital requirement of True Yoga was funded by internal resources and debts.

As at 31 December 2016, True Yoga had finance lease of approximately HK\$0.6 million (subject to fixed interest rate) which are repayable on monthly basis.

As at 31 December 2016, no asset was pledged by True Yoga.

Contingent liabilities

As at 31 December 2016, True Yoga did not have any contingent liability.

Employees and remuneration policies

As at 31 December 2016, True Yoga had 90 full-time employees, whose total emoluments for the year ended 31 December 2016 were approximately HK\$49.0 million. Remuneration packages for employees are reviewed on a regular basis and principally comprised salaries, wages, contributions to defined contribution retirement plan and other benefits.

Significant investments held

As at 31 December 2016, True Yoga does not have any investment.

Material acquisition and disposal of subsidiaries and associated companies

For the year ended 31 December 2016, True Yoga does not have any material acquisition and disposal of subsidiaries and associated companies.

Future plan for material investments

For the year ended 31 December 2016, True Yoga does not have any future plan for material investments.

For the year ended 31 December 2015***Results***

For the year ended 31 December 2015, True Yoga recorded turnover of approximately HK\$52.3 million, representing a decrease of approximately 10.2% as compared with the previous year. The decrease is mainly attributable to the marginal decline in membership sales as a result of the True Fitness Group and True Yoga having more yoga studios within their clubs. This has provided an alternative venue for the yoga members to purchase a membership with True Fitness club which has both fitness and yoga facilities.

True Yoga recorded net loss of approximately HK\$25.1 million, representing a decrease of approximately 28.0% as compared with previous year. This is mainly attributable to the provision of impairment loss on property, plant and equipment of approximately HK\$6.0 million in the preceding financial year.

Liquidity and financial position

As at 31 December 2015, True Yoga's current assets amounted to approximately HK\$18.6 million, which included cash and cash equivalents of approximately HK\$0.8 million. Current liabilities amounted to approximately HK\$215.9 million. Net current liabilities amounted to approximately HK\$197.3 million. True Yoga's current ratio was approximately 0.09.

The gearing ratio (defined as borrowings and finance lease divided by the equity attributable to equity shareholders of True Yoga) was approximately -0.004 as at 31 December 2015.

As at 31 December 2015, True Yoga recorded trade receivables of approximately HK\$0.5 million. There is no material fluctuation as compared to previous year.

As at 31 December 2015, True Yoga recorded other payables of approximately HK\$5.0 million. The decrease in other payables was mainly due to faster repayment to creditors as compared to previous year.

Capital structure and pledge of assets

The director of True Yoga reviewed the capital structure of True Yoga regularly and managed the capital structure, taking into consideration, among other things, the future capital requirements, the projected cash flows and the projected capital expenditures of True Yoga.

As at 31 December 2015, the capital requirement of True Yoga was funded by internal resources and debts.

As at 31 December 2015, True Yoga had finance lease of approximately HK\$0.8 million (subject to fixed interest rate) which are repayable on monthly basis.

As at 31 December 2015, no asset was pledged by True Yoga.

Contingent liabilities

As at 31 December 2015, True Yoga did not have any contingent liability.

Employees and remuneration policies

As at 31 December 2015, True Yoga had 105 full-time employees, whose total emoluments for the year ended 31 December 2015 were approximately HK\$57.3 million. Remuneration packages for employees are reviewed on a regular basis and principally comprised salaries, wages, contributions to defined contribution retirement plan and other benefits.

Significant investments held

As at 31 December 2015, True Yoga does not have any investment.

Material acquisition and disposal of subsidiaries and associated companies

For the year ended 31 December 2015, True Yoga does not have any material acquisition and disposal of subsidiaries and associated companies.

For the year ended 31 December 2014***Results***

For the year ended 31 December 2014, True Yoga recorded turnover of approximately HK\$58.2 million, representing a decrease of approximately 11.7% as compared with the previous year. The decrease is mainly attributable to the marginal decline in membership sales as a result of the True Fitness Group and True Yoga having more yoga studios within their clubs. This has provided an alternative venue for the yoga members to purchase a membership with True Fitness club which has both fitness and yoga facilities.

True Yoga recorded net loss of approximately HK\$34.8 million, representing a loss increase of approximately 26.38% as compared with previous year as a result of the decrease in turnover as described above.

Liquidity and financial position

As at 31 December 2014, True Yoga's current assets amounted to approximately HK\$20.2 million, which included cash and cash equivalents of approximately HK\$1.1 million. Current liabilities amounted to approximately HK\$205.1 million. Net current liabilities amounted to approximately HK\$184.9 million. True Yoga's current ratio was approximately 0.10.

The gearing ratio (defined as borrowings and finance lease divided by the equity attributable to equity shareholders of True Yoga) was approximately -0.005 as at 31 December 2014.

As at 31 December 2014, True Yoga recorded trade receivables of approximately HK\$0.7 million. There is no material fluctuation as compared to previous year.

As at 31 December 2014, True Yoga recorded other payables of approximately HK\$8.6 million. The decrease in other payables was mainly due to faster repayment to creditors as compared to previous year.

Capital structure and pledge of assets

The director of True Yoga reviewed the capital structure of True Yoga regularly and managed the capital structure, taking into consideration, among other things, the future capital requirements, the projected cash flows and the projected capital expenditures of True Yoga.

As at 31 December 2014, the capital requirement of True Yoga was funded by internal resources and debts.

As at 31 December 2014, True Yoga had finance lease of approximately HK\$1.0 million (subject to fixed interest rate) which are repayable on monthly basis.

As at 31 December 2014, no asset was pledged by True Yoga.

Contingent liabilities

As at 31 December 2014, True Yoga did not have any contingent liability.

Employees and remuneration policies

As at 31 December 2014, True Yoga had 114 full-time employees, whose total emoluments for the year ended 31 December 2014 were approximately HK\$62.5 million. Remuneration packages for employees are reviewed on a regular basis and principally comprised salaries, wages, contributions to defined contribution retirement plan and other benefits.

Significant investments held

As at 31 December 2014, True Yoga does not have any investment.

Material acquisition and disposal of subsidiaries and associated companies

For the year ended 31 December 2014, True Yoga does not have any material acquisition and disposal of subsidiaries and associated companies.

Government grants

During the years ended 31 December 2014, 2015 and 2016 and the five months ended 31 May 2016 and 2017, the following government grants are recognised:

Scheme	Nature of the grants	Conditions	Recurring/ one-off
Productivity and Innovation Credit Scheme ("PIC")	PIC, administered under the Inland Revenue Authority of Singapore ("IRAS"), allows business to enjoy 400% tax deductions up to SGD400,000 or 60% cash pay out up to SGD100,000, for investments in innovation and productivity improvements.	The six activities covered under PIC are: <ol style="list-style-type: none"> 1) Acquisition and leasing of PIC information technology and automation equipment 2) Training of employees 3) Acquisition and licensing of intellectual property rights 4) Registration of patents, trademarks, designs and plant varieties 5) Research and development activities 6) Design projects approved by Design Singapore Council 	Recurring from 2010 to 2017
Special Employment Credit ("SEC")	SEC, administered by Central Provident Fund Board ("CPF") is to support employers to cope with higher costs associated with employment of older workers.	SEC provide a wage-offset to employers hiring Singaporean workers aged 55 and above, and earning up to SGD4,000. <ul style="list-style-type: none"> • First, those aged 65 and above but below 67 and not covered by the new re-employment age of 67. • Second, those beyond the new re-employment age of 67. 	Recurring from 2012 to 2016
Temporary Employment Credit ("TEC")	TEC, administered by CPF, is to help employer to cope with the 1 percentage point increase in Medisave contribution rates.	With the TEC, employer will receive a one-year offset of 0.5% of wages for Singaporean and Singapore permanent resident employees in 2015. <p>TEC will be further enhanced and extended to help companies adjust to the cost increases associated with:</p> <ul style="list-style-type: none"> • 1% increase in employer CPF contribution rates for older workers. • Increase in the CPF salary ceiling. 	Recurring from 2015 to 2017

Scheme	Nature of the grants	Conditions	Recurring/ one-off
Wage Credit Scheme (“WCS”)	WCS is administered by IRAS. The government will co-fund 20% to 40% of wage increases given to Singapore citizen employees earning a gross monthly wage of SGD4,000 and below.	<p>All employers paying wage increases in 2013 – 2017 to Singapore Citizen employees who:</p> <ul style="list-style-type: none"> a. Are earning a gross monthly wage of SGD4,000 and below; b. Received CPF contributions from a single employer for at least 3 calendar months in the preceding year 1; c. Have been on the employer’s payroll for at least 3 calendar months in the qualifying year 2 (i.e. employer must have paid employee CPF contributions for at least three calendar months in qualifying year); d. Have at least SGD50 gross monthly wage increase; and e. Must not also be the business owner of the same entity (i.e. sole proprietor of the sole proprietorship, or a partner of the partnership, or both a shareholder and director of a company). 	Recurring from 2013 to 2017

3. TRUE YOGA CAYMAN GROUP

For the five months ended 31 May 2017

Business review

The True Yoga Cayman Group established its presence in Taiwan in 2005 and started out in the business of offering yoga classes. To cater to the changing needs of its members, True Yoga Cayman Group introduced fitness facilities with a comprehensive suite of fitness and yoga classes in 2008. This provided its members a wider variety of workout options. With the growing awareness of healthier lifestyles, saw a greater demand for fitness products and services. True Yoga Cayman Group remains committed to deliver the best fitness experience to its members and aim to be one of the leading yoga and fitness brand in this industry. With the addition of two new clubs in 2017, it is operating 14 fitness centres and two fitness centres in Taiwan and Xiamen, respectively.

Three types of memberships/packages are offered which is recorded as deferred income:

(1) *Pre-paid Term membership packages:*

Fitness & Yoga members pay a lump sum based on the term of the contract (12, 24, 36 and 60 months).

(2) *Monthly Dues membership packages:*

Fitness & Yoga members sign a membership with contracted term (eg 12, 24 or 36 months) and pay fees on a monthly basis.

(3) *Personal training:*

Members sign up and pay upfront in full for 1-on-1 training sessions with professional fitness trainers (12, 24, 30, or more etc).

Results

For the five months ended 31 May 2017, True Yoga Cayman Group recorded turnover of approximately HK\$153.9 million, representing an increase of approximately 27.3% as compared with the previous corresponding period. Such increase was mainly attributable to new developed clubs and steady growth of members.

For the five months ended 31 May 2017, the gross profit margin decreased from approximately 9.5% of the corresponding period in 2016 to approximately 7.6% mainly due to the higher operating cost of the new clubs which was set up in late 2016 and 2017.

For the five months ended 31 May 2017, True Yoga Cayman Group's net loss from continuing operations was approximately HK\$1.2 million compared with the net profit of approximately HK\$1.5 million for the five months ended 31 May 2016. The decrease in net profit was attributable to higher initial operating cost of the newly developed clubs.

Liquidity and financial position

As at 31 May 2017, True Yoga Cayman Group's current assets amounted to approximately HK\$64.1 million, which included cash and cash equivalents of approximately HK\$13.5 million. Current liabilities amounted to approximately HK\$183.1 million. Net current liabilities amounted to approximately HK\$119.1 million. True Yoga Cayman Group's current ratio was approximately 0.35.

The gearing ratio (defined as bank loans and finance lease divided by the equity attributable to equity shareholders of True Yoga Cayman Group) was approximately 1.07 as at 31 May 2017.

As at 31 May 2017, True Yoga Cayman Group recorded trade receivables of approximately HK\$5.3 million. There is no material fluctuation as compared to previous year.

As at 31 May 2017, True Yoga Cayman Group recorded trade payables of approximately HK\$8.1 million. The increase in trade payables was mainly due to the increase in the business scale of True Yoga Cayman Group.

Capital structure and pledge of assets

The directors of True Yoga Cayman reviewed the capital structure of True Yoga Cayman Group regularly and managed the capital structure, taking into consideration, among other things, the future capital requirements, the projected cash flows and the projected capital expenditures of True Yoga Cayman Group.

As at 31 May 2017, the capital requirement of True Yoga Cayman Group was funded by internal resources and debts.

As at 31 May 2017, True Yoga Cayman Group had bank loans and finance lease of approximately HK\$33.5 million (all of which are subject to variable interest rate).

As at 31 May 2017, True Yoga Cayman Group had recorded pledged asset of approximately HK\$84.0 million which comprises trust fund. Save as disclosed, no other asset was pledged by True Yoga Cayman Group.

Contingent liabilities

As at 31 May 2017, True Yoga Cayman Group did not have any contingent liability.

Employees and remuneration policies

As at 31 May 2017, True Yoga Cayman Group had 721 full-time employees, whose total emoluments for the five months ended 31 May 2017 were approximately HK\$80.0 million. Remuneration packages for employees are reviewed on a regular basis and principally comprised salaries, wages, contributions to defined contribution retirement plan and other benefits.

Significant investments held

As at 31 May 2017, True Yoga Cayman Group did not have any investments held.

Disposal of subsidiaries and associated companies

On 17 May 2017, True Yoga Cayman Group transferred one of its subsidiary, True Yoga (Xiamen) Co., Ltd, to Nation Valley Investment Limited, a company incorporated in the British Virgin Island at a consideration of US\$1.

Waiver of intra-group balances

As condition of the deal, on or before the Completion Date, save for certain loans agreed between the parties to be retained, all loans or other indebtedness due or owing by any member of the Target Group (including intra-group loans) are cleared so that the Target Group can be delivered free of debt upon Completion. Thus, all intra-group balances were waived before the completion of the transaction. Accordingly, before the Completion Date, True Yoga Cayman Group waives the loan to CJ Group Pte. Ltd. and the amount due from CJ Group Pte. Ltd. amounting to HK\$25,202,000.

Disposal of trademark

The trademarks were disposed from True Yoga Cayman Group to True Fitness Holdings (Singapore) Pte. Ltd. on 29 May 2017 at cost of NTD26,000,000. The effective period of these trademarks can be renewed with minimal cost every ten years and it is expected to renew these trademarks when they are due.

Future plan for investments

For the five months ended 31 May 2017, True Yoga Cayman Group did not have any future plan for material investments.

For the year ended 31 December 2016***Results***

For the year ended 31 December 2016, True Yoga Cayman Group recorded turnover of approximately HK\$313.7 million, representing an increase of approximately 19.0% as compared with the previous year. Such increase was mainly attributable to new developed clubs and steady growth of memberships.

True Yoga Cayman Group recorded gross profit of approximately HK\$29.7 million, representing an increase of approximately 19.8% as compared with the previous year as a result of the increase in turnover as described above.

For the year ended 31 December 2016, the gross profit margin was approximately 9.5% compared with approximately 9.4% for the year ended 31 December 2015.

For the year ended 31 December 2016, True Yoga Cayman Group's net profit from continuing operations was approximately HK\$4.1 million, representing a decrease of approximately 32.5% despite an increase in gross profit. The decrease is mainly attributable to the higher income tax expense incurred in 2016.

Liquidity and financial position

As at 31 December 2016, True Yoga Cayman Group's current assets amounted to approximately HK\$60.7 million, which included cash and cash equivalents of approximately HK\$18.8 million. Current liabilities amounted to approximately HK\$164.3 million. Net current liabilities amounted to approximately HK\$103.6 million. True Yoga Cayman Group's current ratio was approximately 0.37.

The gearing ratio (defined as bank loans and finance lease divided by the equity attributable to equity shareholders of True Yoga Cayman) was approximately 0.49 as at 31 December 2016.

As at 31 December 2016, True Yoga Cayman Group recorded trade receivables of approximately HK\$5.5 million. The increase in trade receivables was mainly due to the increase in the business scale of True Yoga Cayman Group.

As at 31 December 2016, True Yoga Cayman recorded trade payables of approximately HK\$5.2 million. The increase in trade payables was mainly due to the increase in the business scale of True Yoga Cayman Group.

Capital structure and pledge of assets

The directors of True Yoga Cayman reviewed the capital structure of True Yoga Cayman Group regularly and managed the capital structure, taking into consideration, among other things, the future capital requirements, the projected cash flows and the projected capital expenditures of True Yoga Cayman Group.

As at 31 December 2016, the capital requirement of True Yoga Cayman Group was funded by internal resources and debts.

As at 31 December 2016, True Yoga Cayman Group had bank loans and finance lease of approximately HK\$24.4 million (subject to fixed and variable interest rate).

As at 31 December 2016, True Yoga Cayman Group had recorded pledged asset of approximately HK\$78.4 million which comprises trust fund and finance leased assets. Save as disclosed, no other asset was pledged by True Yoga Cayman Group.

Contingent liabilities

As at 31 December 2016, True Yoga Cayman Group did not have any contingent liability.

Employees and remuneration policies

As at 31 December 2016, True Yoga Cayman Group had 775 full-time employees, whose total emoluments for the year ended 31 December 2016 were approximately HK\$157 million. Remuneration packages for employees are reviewed on a regular basis and principally comprised salaries, wages, contributions to defined contribution retirement plan and other benefits.

Significant investments held

As at 31 December 2016, True Yoga Cayman Group did not have any investments held.

Disposal of subsidiaries and associated companies

As at 31 December 2016, True Yoga Cayman Group did not have any disposal of subsidiaries and associated companies.

Future plan for investments

For the year ended 31 December 2016, True Yoga Cayman Group did not have any future plan for material investments.

For the year ended 31 December 2015***Results***

For the year ended 31 December 2015, True Yoga Cayman Group recorded turnover of approximately HK\$263.7 million, representing an increase of approximately 25.5% as compared with the previous year. Such increase was mainly attributable to the establishment of three new clubs and steady growth of memberships.

True Yoga Cayman Group recorded gross profit of approximately HK\$24.8 million, representing an increase of approximately 9.5% as compared with the previous year as a result of the increase in turnover as described above.

For the year ended 31 December 2015, the gross profit margin was approximately 9.4% compared with approximately 10.8% for the year ended 31 December 2014.

For the year ended 31 December 2015, True Yoga Cayman Group's net profit from continuing operations was approximately HK\$6.1 million, representing an increase of approximately 800.9% as compared with the previous year, mainly due to the increase in turnover and lower income tax expense incurred in 2015.

Liquidity and financial position

As at 31 December 2015, True Yoga Cayman Group's current assets amounted to approximately HK\$64.2 million, which included cash and cash equivalents of approximately HK\$33.4 million. Current liabilities amounted to approximately HK\$140.5 million. Net current liabilities amounted to approximately HK\$76.3 million. The True Yoga Cayman Group's current ratio was approximately 0.46.

The gearing ratio (defined as bank loans and finance leases divided by the equity attributable to equity shareholders of True Yoga Cayman) was approximately 0.65 as at 31 December 2015.

As at 31 December 2015, True Yoga Cayman Group recorded trade receivables of approximately HK\$3.3 million. The increase in trade receivables was mainly due to the increase in the business scale of True Yoga Cayman Group.

As at 31 December 2015, True Yoga Cayman Group recorded trade payables of approximately HK\$4.4 million. There is no material fluctuation as compared to previous year.

Capital structure and pledge of assets

The directors of True Yoga Cayman reviewed the capital structure of True Yoga Cayman Group regularly and managed the capital structure, taking into consideration, among other things, the future capital requirements, the projected cash flows and the projected capital expenditures of True Yoga Cayman Group.

As at 31 December 2015, the capital requirement of True Yoga Cayman Group was funded by internal resources and debts.

As at 31 December 2015, True Yoga Cayman Group had bank loans and finance lease of approximately HK\$29.7 million (subject to fixed and variable interest rate).

As at 31 December 2015, True Yoga Cayman Group recorded pledged asset of approximately HK\$69.9 million which comprises trust fund and finance leased assets. Save as disclosed, no other asset was pledged by True Yoga Cayman Group.

Contingent liabilities

As at 31 December 2015, True Yoga Cayman Group did not have any contingent liability.

Employees and remuneration policies

As at 31 December 2015, True Yoga Cayman Group had 615 full-time employees, whose total emoluments for the year ended 31 December 2015 were approximately HK\$134.9 million. Remuneration packages for employees are reviewed on a regular basis and principally comprised salaries, wages, contributions to defined contribution retirement plan and other benefits.

Significant investments held

As at 31 December 2015, True Yoga Cayman Group did not have any investments held.

Disposal of subsidiaries and associated companies

As at 31 December 2015, True Yoga Cayman Group did not have any disposal of subsidiaries and associated companies.

For the year ended 31 December 2014***Results***

For the year ended 31 December 2014, True Yoga Cayman Group recorded turnover of approximately HK\$210.2 million, representing an increase of approximately 12.94% as compared with the previous year. Such increase was mainly attributable to the establishment of two new clubs and steady growth of memberships.

True Yoga Cayman Group recorded gross profit of approximately HK\$22.6 million, representing a decrease of approximately 40.7% as compared with the previous year. This decrease in gross profit was attributable mainly to the lower profit margin resulting from the start-up phase of the two new clubs that were opened in the second quarter of 2014.

For the year ended 31 December 2014, the gross profit margin decreased to approximately 10.8% from approximately 20.5% for the year ended 31 December 2013 mainly due to the higher operating costs resulting from the 3 new clubs set up in the second half of 2013 and 2014.

For the year ended 31 December 2014, True Yoga Cayman Group's net profit from continuing operations was approximately HK\$0.7 million, representing a decrease of approximately 95.57% as compared with the previous year.

Liquidity and financial position

As at 31 December 2014, True Yoga Cayman Group's current assets amounted to approximately HK\$31.9 million, which included cash and cash equivalents of approximately HK\$7.0 million. Current liabilities amounted to approximately HK\$128.8 million. Net current liabilities amounted to approximately HK\$96.9 million. The True Yoga Cayman Group's current ratio was approximately 0.25.

The gearing ratio (defined as bank loans and finance lease divided by the equity attributable to equity shareholders of True Yoga Cayman) was approximately 0.64 as at 31 December 2014.

As at 31 December 2014, True Yoga Cayman Group recorded trade receivables of approximately HK\$1.9 million. The decrease in trade receivables was mainly due to the timing of collections.

As at 31 December 2014, True Yoga Cayman Group recorded trade payables of approximately HK\$4.4 million. The increase in trade payables was mainly due to the increase in the business scale of True Yoga Cayman Group.

Capital structure and pledge of assets

The directors of True Yoga Cayman reviewed the capital structure of True Yoga Cayman Group regularly and managed the capital structure, taking into consideration, among other things, the future capital requirements, the projected cash flows and the projected capital expenditures of the True Yoga Cayman Group.

As at 31 December 2014, the capital requirement of True Yoga Cayman Group was funded by internal resources and debts.

As at 31 December 2014, True Yoga Cayman Group had bank loans and finance lease of approximately HK\$27.5 million (subject to fixed and variable interest rate).

As at 31 December 2014, True Yoga Cayman Group recorded pledged asset of approximately HK\$68.9 million which comprises trust fund and finance leased assets. Save as disclosed, no other asset was pledged by True Yoga Cayman Group.

Contingent liabilities

As at 31 December 2014, True Yoga Cayman Group did not have any contingent liability.

Employees and remuneration policies

As at 31 December 2014, True Yoga Cayman Group had 492 full-time employees, whose total emoluments for the year ended 31 December 2014 were approximately HK\$104.5 million. Remuneration packages for employees are reviewed on a regular basis and principally comprised salaries, wages, contributions to defined contribution retirement plan and other benefits.

Significant investments held

As at 31 December 2014, True Yoga Cayman Group did not have any investments held.

Disposal of subsidiaries and associated companies

As at 31 December 2014, True Yoga Cayman Group did not have any disposal of subsidiaries and associated companies.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the 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. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

(a) Interests in the Company

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) 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 and short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be and were entered in the register required to be kept by the Company referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") were as follows:

Long positions in Shares and underlying shares of the Directors as at the Latest Practicable Date

Name of Directors	Number of Shares			Total	Approximate percentage of shareholdings
	Personal Interests	Corporate Interests	Number of share options		
Huang Yu	–	3,164,252,000 (Note)	–	3,164,252,000	63.92%
Ng Qing Hai	–	–	5,000,000	5,000,000	0.10%
Zhang Yi	–	–	20,000,000	20,000,000	0.40%
Chan Sze Chung	–	–	1,000,000	1,000,000	0.02%
Zhang Ruibin	–	–	1,000,000	1,000,000	0.02%
Zhang Junxi Jack	–	–	1,000,000	1,000,000	0.02%

Note:

As at the Latest Practicable Date, Mr. Huang Yu owned 99% interests in the registered capital of 深圳市奧融信投資發展有限公司 (Shenzhen Aorongxin Investment Development Co., Ltd.*) (“**Shenzhen Aorongxin**”), which in turn owned 52% interests in the registered capital of Shenzhen Waranty. Shenzhen Waranty, through its wholly-owned subsidiary, Waranty Assets Management (HK) Limited (“**Waranty Hong Kong**”), owned 100% interests in the issued share capital of China Health. Since China Health is the beneficial owner of 3,164,252,000 Shares, Mr. Huang Yu was deemed to be interested in the Shares held by China Health.

(b) Interest in associated corporation

Name of Director	Name of associated corporation	Capacity	Percentage of interest in the associated corporation (approximate)
Huang Yu (<i>Note</i>)	Shenzhen Aorongxin	Beneficial owner	99%

Note:

As at the Latest Practicable Date, Mr. Huang Yu owned 99% interests in the registered capital of Shenzhen Aorongxin and Shenzhen Aorongxin owned 52% interests in the registered capital of Shenzhen Waranty. Shenzhen Waranty, through its subsidiary, Waranty Hong Kong, owned 100% interests in the issued share capital of China Health. China Health directly held 3,164,252,000 Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executives of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) 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 and short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be and were entered in the register required to be kept by the Company referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(c) **Substantial Shareholders' interests and/or short position in shares and underlying shares of the Company**

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons, other than a Director or chief executive of the Company, had or were deemed or taken to have an interest or short position in the Shares and underlying Shares, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of substantial Shareholders	Capacity	Long Position	
		Number of Shares interested	Approximate percentage of issued Shares
China Health	Beneficial owner	3,164,252,000	63.92%
Waranty Hong Kong	Interest in a controlled corporation (<i>Note 1</i>)	3,164,252,000	63.92%
Shenzhen Waranty	Interest in a controlled corporation (<i>Note 2</i>)	3,164,252,000	63.92%
同方金融控股(深圳)有限公司 (Tongfang Financial Holdings Co., Ltd*) ("Tongfang Financial")	Interest in a controlled corporation (<i>Note 3</i>)	3,164,252,000	63.92%
同方股份有限公司 (Tsinghua Tongfang Co., Ltd.*) ("Tsinghua Tongfang")	Interest in a controlled corporation (<i>Note 4</i>)	3,278,246,000	66.23%
Shenzhen Aorongxin	Interest in a controlled corporation (<i>Note 5</i>)	3,164,252,000	63.92%

Notes:

1. China Health was a wholly-owned subsidiary of Waranty Hong Kong and Waranty Hong Kong was therefore deemed to have an interest in all the Shares beneficially owned by China Health under the SFO.
2. Waranty Hong Kong was a wholly-owned subsidiary of Shenzhen Waranty and Shenzhen Waranty was therefore deemed to have an interest in all the Shares beneficially owned by China Health under the SFO.
3. The equity interest of Shenzhen Waranty was held by Shenzhen Aorongxin as to 52% and Tongfang Financial as to 48%. Tongfang Financial was therefore deemed to have an interest in the Shares in which Shenzhen Waranty was interested under the SFO.
4. The entire equity interest of Tongfang Financial was held by Tsinghua Tongfang and Tsinghua Tongfang was therefore deemed to have an interest in the Shares in which Tongfang Financial was interested under the SFO. In addition, THTF Energy-Saving Holdings Limited (“**THTF Energy-Saving**”), an indirect wholly-owned subsidiary of Tsinghua Tongfang, was the beneficial owner of 113,994,000 Shares, and Tsinghua Tongfang was therefore also deemed to have an interest in the Shares in which THTF Energy-Saving was interested under the SFO.
5. The equity interest of Shenzhen Waranty was held by Shenzhen Aorongxin as to 52% and Shenzhen Aorongxin was therefore deemed to have an interest in the Shares in which Shenzhen Waranty was interested under the SFO.

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

3. DIRECTORS’ INTERESTS IN CONTRACTS OR ARRANGEMENTS OF SIGNIFICANCE OR ASSETS OF THE ENLARGED GROUP

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to any member of the Enlarged Group since 31 December 2016, being the date to which the latest published audited accounts of the Group were made up.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

4. DIRECTORS' SERVICE CONTRACTS OF THE ENLARGED GROUP

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with the Company and/or any member of the Enlarged Group which is not determinable by relevant member of the Enlarged Group within one year without payment of compensation, other than statutory compensation.

5. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which competes or may compete with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder of the Company).

6. LITIGATION OF THE ENLARGED GROUP

As at the Latest Practicable Date, so far as the Directors were aware, none of the members of the Enlarged Group was engaged in any litigation or claims of material importance and no litigation or claim of material importance was pending or threatened against any member of the Enlarged Group.

7. EXPERT AND CONSENT

The following is the qualifications of the expert who has given opinions or advices in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants, Hong Kong

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letters, reports and/or opinion, as the case may be, and references to its name in the form and context in which it appears.

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

As at the Latest Practicable Date, the above expert did not have any interest, directly or indirectly, in any assets which had since 31 December 2016 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

The accountant's report on the Target Group is given by Deloitte Touche Tohmatsu as at the date of this circular for incorporation herein.

8. MATERIAL CONTRACTS OF THE ENLARGED GROUP

The Enlarged Group had entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the Latest Practicable Date, which are, or may be, material to the Enlarged Group:

- (a) a joint venture agreement (the “**JV Agreement**”) dated 31 May 2017 entered into between 北京華控康泰醫療健康管理有限公司 (Beijing Huakong Kangtai Healthcare Management Co., Ltd.*) (“**Huakong Kangtai**”), a wholly-owned subsidiary of the Company incorporated in the PRC, and Binex Co., Ltd. (“**Binex**”) for possible establishment of a joint venture company in the PRC (the “**Joint Venture**”) to develop biologics business. The parties preliminarily agreed that the Joint Venture is proposed to be owned by Huakong Kangtai and Binex as to 51% and 49%, respectively, and majority members of the Board of directors are proposed to be nominated by Huakong Kangtai;
- (b) a contract development services agreement (the “**Services Agreement**”) dated 31 May 2017 entered into amongst 華控創新(北京)藥物研究院有限公司 (Huakong Innovation (Beijing) Institute of Pharmaceutical Research Co., Ltd.*) (“**Huakong Innovation**”), a subsidiary of the Company incorporated in the PRC, and Binex, pursuant to which Huakong Innovation will engage Binex to develop biosimilar products. Binex will provide the development results for approval by Huakong Innovation in stages and the total service fee currently expected to be payable by Huakong Innovation to Binex is approximately US\$0.39 million;

- (c) the loan agreement dated 27 May 2017 entered into between 上海聯合水泥有限公司 (Shanghai Allied Cement Co., Ltd.*) (“**Shanghai SAC**”), which is held as to 60% by All-Shanghai Inc. (whose issued share capital is in turn indirectly held as to 83.33% by the Company) as at the Latest Practicable Date, as lender, and 上海建材(集團)有限公司 (Shanghai Building Material (Group) Company Limited*) (“**Shanghai Building Material**”), a state-owned enterprise holding 40% equity interest of Shanghai SAC, as borrower, pursuant to which the parties have agreed to further extend the term of each of (i) the entrusted loan in the principal amount of RMB54,000,000 provided by Shanghai SAC to Shanghai Building Material, details of which were disclosed in the announcement of the Company dated 23 May 2014, 22 May 2015 and 27 May 2016; and (ii) the entrusted loan in the principal amount of RMB78,000,000 provided by Shanghai SAC to Shanghai Building Material, details of which were disclosed in the announcement of the Company dated 2 July 2014, 22 May 2015 and 27 May 2016 (together, the “**Entrusted Loans**”);
- (d) the Sale and Purchase Agreements;
- (e) the Shareholders’ Agreements;
- (f) the Franchise Agreement;
- (g) the conditional agreement dated 29 November 2016 entered into among the Company, Binex, Able Partners Co., Ltd., Binex Holdings Co., Ltd., Mr. Lee, Hyuk-Jong and Mr. Jeong, Myung-Ho in relation to the subscription (the “**Korean Subscription**”) for 13,182,298 shares of the voting common stock of Binex of par value KRW500 per share (as may be supplemented or amended) (the “**Korean Share Subscription Agreement**”), which had been terminated on 31 May 2017 pursuant to a termination deed entered into amongst the parties (the “**Termination Deed**”);
- (h) the entrusted voting agreement dated 29 November 2016 entered into amongst the Company, Binex, Able Partners Co., Ltd., Binex Holdings Co., Ltd., Mr. Lee, Hyuk-Jong and Mr. Jeong, Myung-Ho which will take effect upon completion of the Korean Subscription in accordance with the terms of the Korean Share Subscription Agreement, which had been terminated on 31 May 2017 pursuant to the Termination Deed;

- (i) the shareholders' agreement dated 29 November 2016 entered into amongst the Company, Able Partners Co., Ltd., Binex Holdings Co., Ltd., Mr. Lee, Hyuk-Jong and Mr. Jeong, Myung-Ho which will take effect upon completion of the Korean Subscription in accordance with the terms of the Korean Share Subscription Agreement (as may be supplemented or amended, which had been terminated on 31 May 2017 pursuant to the Termination Deed); and
- (j) the sale and purchase agreement dated 28 January 2016 entered into between Kingwood Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company, as purchaser, and Shenzhen Waranty, a company established under the laws of the PRC, as vendor, pursuant to which Kingwood Limited agreed to purchase 60% of the equity interest in Tongfang Pharmaceutical Group Co., Ltd* 同方藥業集團有限公司 (formerly known as Beijing Ziguang Pharmaceutical Co., Ltd.* 北京紫光製藥有限公司), a sino-foreign joint venture enterprise established in the PRC, from Shenzhen Waranty for the aggregate consideration of RMB291,200,000.

9. GENERAL

The registered office of the Company is situated at P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The head office and principal place of business of the Company is at 15th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong.

The principal share registrar of the Company is Eстера Trust (Cayman) Limited at P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The branch share registrar of the Company in Hong Kong is Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

The company secretary of the Company is Ms. Si Tou Man Wai, who is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in Australia.

The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on a business day at the principal place of business of the Company at 15th Floor, Allied Kajima Building, 138 Gloucester Road, Wan Chai, Hong Kong from the date of this circular up to 11 August 2017:

- (a) this circular;
- (b) the memorandum and articles of association of the Company;
- (c) the accountant's report on the Target Group issued by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this circular;
- (d) the report on the unaudited pro forma financial information of the Enlarged Group from Deloitte Touche Tohmatsu, the text of the which is set out in Appendix III to this circular;
- (e) the annual reports of the Company for each of the financial years ended 31 December 2015 and 31 December 2016; and
- (f) the material contracts referred to in the section headed "Material Contracts of the Enlarged Group" in this Appendix V.

* *for identification purposes only*