



CHINESE FOOD AND BEVERAGE GROUP LIMITED

華人飲食集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8272

華人飲食

FIRST QUARTERLY REPORT 2014

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This report, for which the directors of CHINESE FOOD AND BEVERAGE GROUP LIMITED (the “Company”) (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM 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 report is accurate and complete in all material respects and not misleading or deceptive, and that there are no other matters the omission of which would make any statement herein or this report misleading.

This report will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least seven days from the date of its publication and the Company’s website at www.cfbgroup.com.hk.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The board of Directors (the "Board") of the Company announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31 March 2014. The accounting period end date of the Group was changed from 30 April to 31 December. The unaudited first quarterly results for the three months ended 31 July 2013 were used as corresponding comparative figures.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 31 March 2014

	Notes	Three months ended 31 March 2014 (Unaudited) HK\$'000	31 July 2013 (Unaudited) HK\$'000
Turnover	3	15,295	9,129
Revenue	3	11,269	9,129
Cost of sales		(11,362)	(7,962)
Gross (loss) profit		(93)	1,167
Other operating income		1,545	1,134
Loss on disposal of held-for-trading investment		(418)	–
Loss on disposal of subsidiary		(34)	–
Reversal of impairment loss in respect of loan receivables		600	–
Change in fair value of held-for-trading investments		(8,078)	495
Change in fair value of convertible instruments designated as financial assets at fair value through profit or loss		13,252	42,123
Change in fair value of derivative financial assets		690	174
Administrative expenses		(13,690)	(22,463)
Finance costs		(18,033)	(18,248)
(Loss) profit before tax		(24,259)	4,382
Income tax expense	4	–	–
(Loss) profit for the period		(24,259)	4,382
(Loss) profit for the period attributable to:			
Owners of the Company		(24,174)	4,359
Non-controlling interest		(85)	23
		(24,259)	4,382
(Loss) earning per share – basic and diluted	6	HK cents (4.58)	HK cents 0.89

CONDENSED CONSOLIDATED STATEMENT OF
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2014

	Three months ended	
	31 March 2014 (Unaudited) HK\$'000	31 July 2013 (Unaudited) HK\$'000
(Loss) profit for the period	(24,259)	4,382
Total comprehensive (expenses) income for the period	(24,259)	4,382
Total comprehensive (expenses) income for the period attributable to:		
Owners of the Company	(24,174)	4,359
Non-controlling interest	(85)	23
	(24,259)	4,382



CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2014

	Attributable to owners of the Company								Non-controlling interest HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Convertible bonds reserve HK\$'000	Warrants reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000			
At 1 May 2013 (audited)	4,669	232,052	1,529	3,638	-	(165,981)	75,907	(1,140)	74,767	
Profit for the period	-	-	-	-	-	4,359	4,359	23	4,382	
Issue of shares upon conversion of convertible bonds	515	9,127	-	(3,638)	-	-	6,004	-	6,004	
Realisation of translation reserve upon disposal of a subsidiary	-	-	(1,529)	-	-	-	(1,529)	-	(1,529)	
At 31 July 2013 (unaudited)	5,184	241,179	-	-	-	(161,622)	84,741	(1,117)	83,624	
At 31 December 2013 (audited)	5,284	248,175	-	-	893	(160,153)	94,199	(1,153)	93,046	
Loss for the period	-	-	-	-	-	(24,174)	(24,174)	(85)	(24,259)	
At 31 March 2014 (unaudited)	5,284	248,175	-	-	893	(184,327)	70,025	(1,238)	68,787	



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2014

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The shares of the Company are listed on the GEM of the Stock Exchange. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the address of its principal place of business in Hong Kong is 4th Floor, Phase 1, Kaiser Estate, 41 Man Yue Street, Hunghom, Kowloon, Hong Kong. The principal activity of the Company is investment holding.

The condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB. In addition, the Group's unaudited quarterly financial statements include applicable disclosures required by the GEM Listing Rules.

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values. Historical cost is generally based on the value of the consideration given in exchange for goods.

The principal accounting policies applied in the preparation of the unaudited condensed consolidated financial statement for the three months ended 31 March 2014 are consistent with those applied in the preparation of the Group's consolidated financial statements for the eight months ended 31 December 2013.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2014

3. TURNOVER AND REVENUE

Turnover represents the gross proceeds received and receivable from catering business, food manufacturing and securities trading during the period.

An analysis of the Group's turnover and revenue for the period is as follows:

	Three months ended	
	31 March 2014	31 July 2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Turnover		
Chinese restaurant operation	9,728	9,129
Food manufacturing	1,541	–
Gross proceeds from disposal of held-for-trading investments	4,026	–
	15,295	9,129
Revenue		
Chinese restaurant operation	9,728	9,129
Food manufacturing	1,541	–
Securities investments	–	–
	11,269	9,129

4. INCOME TAX EXPENSE

The Company is an exempted company incorporated in the Cayman Islands, as such it is not liable for taxation in the Cayman Islands on its non-Cayman Islands income.

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax for the three months ended 31 March 2014 and 31 July 2013.

5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2014 (three months ended 31 July 2013: nil).



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2014

6. (LOSS) EARNINGS PER SHARE

The calculation of basic and diluted (loss) earnings per share attributable to owners of the Company is based on the following:

	Three months ended	
	31 March 2014 (Unaudited) HK\$'000	31 July 2013 (Unaudited) HK\$'000
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share	(24,174)	4,359
	No. of shares '000	No. of shares '000
Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earnings per share	528,360	488,686
Basic and diluted (loss) earning per share	HK(4.58) cents	HK0.89 cents

The computation of diluted loss per shares for the three months ended 31 March 2014 does not assume the exercise of the Company's non-listed warrants because the respective exercise prices of the Company's non-listed warrants were higher than the average market price of the shares of the Company during the period under review.

7. COMPARATIVE FIGURES

The Company has changed its financial year end from 30 April to 31 December. Consequently, the reporting period for the first quarter of this fiscal year covers three months from 1 January 2014 to 31 March 2014, while that for the first quarter of last fiscal year was from 1 May 2013 to 31 July 2013. As a result, the comparative figures for the corresponding period set out in this report represent the results recorded during the period from 1 May 2013 to 31 July 2013.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FINANCIAL REVIEW

The accounting period end date of the Group was changed from 30 April to 31 December. The unaudited first quarterly results for the three months ended 31 July 2013 (the “last corresponding period”) were used as corresponding comparative figures.

Turnover

During the three months ended 31 March 2014 (the “Reporting Period”), the Group recorded a turnover of approximately HK\$15,295,000, approximately representing a 68% increase as compared with the last corresponding period. The increase was mainly contributed by the food manufacturing and gross proceeds from disposal of held-for-trading investments.

Loss for the period

The Group recorded a loss of approximately HK\$24,259,000 for the Reporting Period, as compared with a profit of approximately HK\$4,382,000 of the last corresponding period. The loss for the Reporting Period was mainly attributable to permanent running cost of the food manufacturing business leading to increase in cost of sales, loss in change in fair value of held-for-trading investments, reduction in the gain during the Reporting Period on change in fair value of convertible instruments designated as financial assets at fair value through profit or loss and the finance costs.

Catering Business

The Group has been expanding in the local catering business and commenced its operation of Guo Fu Lou (國福樓) since October 2012. The segmental turnover of the catering business for the Reporting Period was approximately HK\$9,728,000 (three months ended 31 July 2013: approximately HK\$9,129,000), representing an increase of approximately 6% as compared with the last corresponding period. This catering business achieved satisfactory results due to the successful top tier premium market orientation.

Food Manufacturing Business

The Group built up its food manufacturing factory in May 2013 and launched the food manufacturing business in August 2013. The segmental turnover of the food manufacturing business for the Reporting Period was approximately HK\$1,541,000 (three months ended 31 July 2013: nil).



MANAGEMENT DISCUSSION AND ANALYSIS

Securities Investments

The Group has been principally engaged in local catering business and expanding our business into food manufacturing business. It is the Group's corporate strategy to explore other businesses with good business potential and growth prospects including but not limited to the securities investments in both the listed and unlisted companies.

During the Reporting Period, the Group recorded a loss on change in fair value of held-for-trading investments of approximately HK\$8,078,000 (three months ended 31 July 2013: a gain of HK\$495,000), gain on change in fair value of derivative financial assets of approximately HK\$690,000 (three months ended 31 July 2013: approximately HK\$174,000) and gain on change in fair value of convertible instruments designated as financial assets at fair value through profit or loss of approximately HK\$13,252,000 (three months ended 31 July 2013: a gain of approximately HK\$42,123,000) which arisen from the convertible bonds of the holding company of Fook Lam Moon restaurants in the principal amount of HK\$200,000,000.

CAPITAL STRUCTURE

There was no change in the Company's capital structure during the Reporting Period. As at 31 March 2014, the Company's issued share capital was HK\$5,283,600 and the number of its issued ordinary shares was 528,360,000 shares of HK\$0.01 each (the "Shares") and has 93,000,000 (31 December 2013: 93,000,000) warrants outstanding.

SIGNIFICANT INVESTMENTS

At 31 March 2014, the Group's investment deposit paid to Coqueen Company Limited ("Coqueen") intended to acquire the entire interest of Coqueen in and over the properties, operation and trademarks of Fook Lam Moon Restaurant Limited and Fook Lam Moon (Kowloon) Restaurant Limited amounted to HK\$20,000,000 (as at 31 December 2013: HK\$20,000,000), loan receivables amounted to approximate of HK\$86,498,000 (as at 31 December 2013: HK\$86,498,000), convertible instruments designated as financial assets at fair value through profit or loss approximately HK\$287,743,000 (as at 31 December 2013: approximately HK\$274,491,000), derivative financial assets approximately HK\$15,870,000 (as at 31 December 2013: approximately HK\$15,180,000) and held-for-trading investments amounted to approximately HK\$35,836,000 (as at 31 December 2013: approximately HK\$48,358,000).



MANAGEMENT DISCUSSION AND ANALYSIS

Subscription of Convertible Bonds of the holding company of Fook Lam Moon

The Group has been proactively identifying potential investment opportunities for building a stronger business foundation, broadening its source of income and improving its overall financial results. In order to further explore into the local catering industry, the Group entered into a subscription agreement (the "Convertible Bonds Subscription Agreement") with Professional Guide Enterprise Limited ("SPV") and its relevant parties on 18 December 2012 to subscribe the convertible bonds of the SPV in the principal amount of HK\$200,000,000 (the "Subscription"). If the convertible bonds are converted in full at the conversion price of HK\$20,000 per SPV conversion share, a total of 10,000 SPV conversion shares will be issued, representing 50% of the issued share capital of the SPV as enlarged by the conversion. All the conditions of the Convertible Bonds Subscription Agreement have been fulfilled or waived, as the case may be, and the Subscription was completed on 4 June 2013. At completion, Rich Paragon Limited ("Rich Paragon"), an indirect wholly-owned subsidiary of the Company, granted to the SPV the loan in the amount of approximately HK\$116,000,000 ("Fook Lam Moon Project").

On 30 September 2013, the exercise of the conversion rights attached to the convertible bonds (the "Conversion") was resolved by the Board. Pursuant to the Convertible Bonds Subscription Agreement, an shareholders' agreement to be entered into between Coqueen and Rich Paragon in relation to the SPV (the "Shareholders' Agreement") shall be executed by Coqueen (or its subsidiary following the SPV Restructuring (as defined in the announcement of the Company dated 18 October 2013)) and Rich Paragon forthwith upon the Conversion in full.

As the applicable percentage ratios defined under the GEM Listing Rules of the Conversion exceeds 100%, the Conversion constitutes a very substantial acquisition under Chapter 19 of the GEM Listing Rules and is therefore subject to the reporting, publication and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

As additional time is required for the Company to finalise certain information in the circular, it is expected that the despatch of the circular will be delayed to a date on or before 30 May 2014.

For details, please refer to the announcements of the Company dated 30 January 2013, 24 May 2013, 31 May 2013, 4 June 2013, 7 June 2013, 17 July 2013, 16 September 2013, 18 October 2013, 18 November 2013, 16 December 2013, 28 January 2014, 28 February 2014, 28 March 2014, 28 April 2014 and the circular of the Company dated 20 April 2013 respectively.

The Directors believe that the Conversion would bring (i) alignment between the strong brand and earnings potential and the Group's business strategy; (ii) possible enhancement of the corporate image of the Group due to the prominent brand equity of Fook Lam Moon Restaurant Limited ("FLM HK") and Fook Lam Moon (Kowloon) Restaurant Limited ("FLM Kowloon"); and (iii) synergy effect with the existing catering business.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has principally financed its operations by internal resources and shareholders equity except for the funds raised to satisfy the subscription of the convertible bonds of the SPV and the provision of the SPV loan as mentioned above. The Reporting Period ended with the net current liabilities of approximately HK\$318,107,000 (as at 31 December 2013: the net current liabilities of approximately HK\$301,827,000) including the bank balances and cash of approximately HK\$18,763,000 (as at 31 December 2013: approximately HK\$21,909,000).

As at 31 March 2014, the Group had other borrowings amounted to approximately HK\$324,500,000 (31 December 2013: HK\$311,300,000) and obligation under finance lease of approximately HK\$45,000 (31 December 2013: approximately HK\$60,000). The gearing ratio, computed as other borrowings and obligation under finance lease over total equity, stood at approximately 456% at the end of the Reporting Period (31 December 2013: 334%).

FUND RAISING ACTIVITIES

Proposed issue of convertible bonds

On 22 November 2013, the Company entered into a subscription agreement (the "Subscription Agreement") with China Merchants Securities Investment Management (HK) Co., Limited ("CMS") and the parties of the Guarantors (as defined in the announcement of the Company dated 1 April 2014) in relation to the proposed issue of secured convertible bonds by the Company at an aggregate principal amount of US\$25 million with a coupon rate of 3% per annum to CMS or CMS together with any Person (as defined in the announcement of the Company dated 1 April 2014) designated by it, and to be guaranteed by the Guarantors and Coqueen. On 27 January 2014, the Company, China Merchants Securities (HK) Co., Ltd. ("CMS HK") and Coqueen entered into a memorandum of understanding (the "MOU") in relation to the proposed amendments to the Subscription Agreement and the instrument of the convertible bonds contemplated thereunder.



MANAGEMENT DISCUSSION AND ANALYSIS

On 31 March 2014, the Company entered into a second subscription agreement (the "Second Subscription Agreement") with CMS, Mr. Tang Anthony Mong Fai ("Mr. Tang") and the parties of the Guarantors in view of the proposed terms under the MOU, in consideration of the mutual promises, representations, warranties, covenants and conditions in the Second Subscription Agreement, and to replace the Subscription Agreement, which will cease to have effect upon entry of the Second Subscription Agreement. Pursuant to the Second Subscription Agreement, the Company shall issue the guaranteed secured convertible bonds at an aggregate principal amount of US\$37.5 million with a coupon rate of 3% per annum (the "Convertible Bonds") to Mr. Tang, CMS, and/or any such person designated by CMS, and to be guaranteed by the Guarantors and Coqueen. The Convertible Bonds shall be subscribed by Mr. Tang and CMS (or CMS together with any person designated by it) at the principal amount of US\$12,500,000 and US\$25,000,000, respectively, and at an aggregate price equal to 100% of the principal amount of the Convertible Bonds.

Assuming full conversion of the Convertible Bonds at the conversion price of HK\$0.56 per conversion share and the fixed exchange rate of US\$1 to HK\$7.7644, the Convertible Bonds are convertible into 519,937,500 conversion shares. The conversion price shall be subject to adjustment from time to time in accordance with the bond instrument set out in a schedule of the Second Subscription Agreement in relation to the Convertible Bonds (the "Bond Instrument").

The Guarantors have, on a joint and several basis, unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Company under the Convertible Bonds and the performance of all obligations of the Company under the transaction documents including but not limited to the Second Subscription Agreement and the Bond Instrument. Coqueen has unconditionally and irrevocably guaranteed the due and punctual payment of all or any sums (whether principal, interest, fees or otherwise) which are or at any time may become due and payable by the Company under the Convertible Bonds.

The conversion shares will be allotted and issued pursuant to the specific mandate to be granted to the Directors at an extraordinary general meeting of the Company (the "EGM"). The conversion shares will rank *pari passu* in all respects with the existing Shares in issue. The estimated net proceeds from the issue of the Convertible Bonds will be approximately HK\$280.7 million, representing a net conversion price of approximately HK\$0.54 per conversion share. The proposed subscription of the Convertible Bonds (the "Subscription") is conditional upon, among other things, (i) the Independent Shareholders (as defined in the announcement of the Company dated 1 April 2014) having passed the necessary resolutions in relation to the Subscription at the EGM; and (ii) the Stock Exchange having approved the listing of, and permission to deal in the conversion shares.

For details, please refer to the announcements of the Company dated 7 June 2013, 26 November 2013, 27 January 2014, 1 April 2014 and 25 April 2014.



MANAGEMENT DISCUSSION AND ANALYSIS

CHARGE ON GROUP'S ASSETS

As at 31 March 2014, certain assets with fair value of approximately HK\$398,924,000 (as at 31 December 2013: HK\$384,616,000) were pledged to a lender to secure a loan facility of HK\$300,000,000 (as at 31 December 2013: HK\$300,000,000).

CAPITAL COMMITMENTS

As at 31 March 2014, the Group did not have any significant capital commitment (as at 31 December 2013: Nil).

CONTINGENT LIABILITIES

As at 31 March 2014, the Group did not have any significant contingent liability (as at 31 December 2013: approximately HK\$1,010,000) arising from the claim by a third party.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group did not have any material acquisition and disposal of subsidiaries and affiliated companies for the three months ended 31 March 2014.

ADVANCE TO ENTITY

(i) Advance to entity in the amount of HK\$44,000,000

An earnest deposit in the amount of HK\$44,000,000 was paid by Red Bloom Limited (the "Proposed Purchaser"), an indirect wholly-owned subsidiary of the Company, to Key Ally Limited (the "Proposed Vendor"), a company incorporated in the British Virgin Islands with limited liability, pursuant to the memorandum of understanding dated 17 August 2011 (the "MOU") in relation to the proposed equity investment with controlling interest in Excel Time Holdings Limited (the "Target Company"), which in turn entered into a framework agreement for the acquisition of equity interest in 太原市漢波食品工業有限公司 (Taiyuan Hanbo Food Industrial Limited*) ("Taiyuan Hanbo") (collectively, the "Earnest Deposit"). As the amount of the Earnest Deposit exceeded 8% of the total assets of the Company as defined under Rule 19.07(1) of the GEM Listing Rules, the entering of the MOU constituted an advance to an entity pursuant to Rule 17.15 of the GEM Listing Rules. Pursuant to the MOU, the Proposed Purchaser shall conduct due diligence review of the assets, liabilities, operations and affairs of the Target Company and Taiyuan Hanbo within a period of 180 calendar days from the date of signing of the MOU (the "Exclusivity Period") (collectively, the "DD Review"). The Proposed Vendor shall supply the Proposed Purchaser with information on, including but not limited to, the financial and business position of the Target Company and any of its subsidiaries or associated companies and information relating to Taiyuan Hanbo. Mr. Ng Wai Huen (as the guarantor) undertakes to guarantee the performance of all obligations of the Proposed Vendor under the MOU.

* for identification purpose only

Based on the results of the DD Review, the Board had resolved not to extend the Exclusivity Period nor to proceed further in relation to the proposed investment. As the Exclusivity Period had ended and no transaction had materialized, the Group had issued a written notice to the Proposed Vendor confirming the lapse of the MOU and requesting the refund of the Earnest Deposit.

On 7 May 2012, the Group agreed with the Proposed Vendor to amend the repayment terms of the Earnest Deposit, such that the Earnest Deposit shall be repaid by 16 monthly instalments and carry fixed interest at the rate of 5% per annum which shall be charged on the outstanding amount of the Earnest Deposit.

On 16 July 2013, the Group and the Proposed Vendor agreed to execute a revised repayment schedule to extend the outstanding principal amount of HK\$29,838,000 for a further one year with the same interest rate as agreed by both parties repayable in 11 installments. After that, the Proposed Vendor settled only HK\$2,300,000 to the Group. The directors considered that the likelihood of recovery of the outstanding principal and accrued interest amount was very remote and the impairment loss of loan receivables of HK\$28,225,000 was recognized during the eight months ended 31 December 2013. After that just before the end of March 2014, the Group received a further sum of HK\$600,000 from the Proposed Vendor. The Group will proceed to recover the outstanding amount in reliance on legal advice.

(ii) Advance to entity in the amount of HK\$20,000,000 on 24 April 2013

On 23 January 2013, the Company, Rich Paragon, Coqueen, the SPV, Mr. Chui Pui Kun and Mr. Chui Tak Keung, Duncan (collectively, the "Parties") entered into the second framework agreement (the "Second Framework Agreement") and supplemented by the supplemental second framework agreement dated 30 January 2013 (the "Supplemental Second Framework Agreement") in relation to, inter alia, the adjustment with relevant parties of the Convertible Bonds Subscription Agreement concerning the acquisition of a portion of Coqueen's entire shareholding in the SPV from Coqueen by Rich Paragon pursuant to the Second Framework Agreement (the "Further Investment").



MANAGEMENT DISCUSSION AND ANALYSIS

In addition, the Parties entered into the third framework agreement on 24 April 2013 (the "Third Framework Agreement") in relation to, inter alia, (i) supersede the Second Framework Agreement and Supplemental Second Framework Agreement; and (ii) replace the Further Investment (together, the "Revised Further Transaction"). Subject to the fulfillment of such conditions precedent to be agreed by the Parties, including, inter alia, the completion of the Subscription and entering into a formal agreement which sets out the definitive terms and conditions for, and which governs and regulates, the Revised Further Transaction by the Parties on or before 30 June 2014 (or such later date as the Parties may agree in writing), Rich Paragon shall, after completion of the FLM HK Restructuring (as defined in the announcement of the Company dated 18 October 2013), the FLM Kowloon Restructuring (as defined in the announcement of the Company dated 18 October 2013) and forming a subsidiary of the SPV shall be the sole ultimate beneficial owner of the "Fook Lam Moon" and "福臨門" trademarks which are registered in Hong Kong, Macau and the People's Republic of China (the "PRC"), carry out and complete the Revised Further Transaction by acquiring from Coqueen.

Pursuant to the Third Framework Agreement, Rich Paragon shall, forthwith upon execution of the Third Framework Agreement, pay HK\$20,000,000 to Coqueen by way of internal resources of the Group as refundable deposit (the "Framework Deposit"). The Framework Deposit shall be refunded by Coqueen (without interest) within 14 days of Rich Paragon's written demand issued at any time after (i) 24 May 2013, or (ii) Rich Paragon's issuance of any written notice to Coqueen to terminate negotiation on the terms of the such further formal agreement, whichever shall be later.

The amount of the Framework Deposit exceeds 8% of the total asset of the Company as defined under Chapter 19 of the GEM Listing Rules and it constitutes an advance to an entity pursuant to Rule 17.15 of the GEM Listing Rules. For details, please refer to the announcement of the Company dated 24 April 2013.

PROSPECT AND OUTLOOK

The Group has been principally engaged in the local catering business. It is the Group's corporate strategy to explore other industries with good business potential and growth prospects, including but not limited to, the food and beverage industry in the PRC.

Guo Fu Lou (國福樓)

One of the current key business of the Group is the catering business and the Group is currently operating Guo Fu Lou (國福樓), a renowned Michelin One Star restaurant tailored to provide premium Chinese banqueting services for corporate and family gatherings as part of its development in the industry. The Group has also been expanding its catering business with an ongoing vision to develop further in the local market and is expected to continue to explore and research into any other business opportunities in relation to catering businesses.



MANAGEMENT DISCUSSION AND ANALYSIS

Investment in Fook Lam Moon

For the Fook Lam Moon Project as discussed at the section under “Significant Investments”, the Board is taking into consideration (i) the Company’s corporate strategy at exploring the feasibility of further expansion in catering business, (ii) the development potential of the local high-end catering industry, (iii) the growing aggregate profit margin of FLM HK and FLM Kowloon (collectively, the “FLM Group”); (iv) the synergy with the existing business of the Group; (v) the favourable dividend policy as set out in the Shareholders’ Agreement; and (vi) the persistent performance of the FLM Group in the past years, its resilience to volatility and structural changes together with its strong potential to bring in new opportunities for expanding the Group’s catering businesses, the Directors are of the view that the Conversion and the terms of the Shareholders’ Agreement are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole. After completion of the Subscription, the Group is focusing on business development of FLM Group and intends to maintain the operations of all the existing business segments.

Going forward, the FLM Group will continue to strengthen its presence in the local and regional catering industry. With the focus of operating high-end Chinese restaurants, the FLM Group is looking to explore and expand into the markets of Macau, Mainland China and Singapore alongside the growing high end market in the above regions. The FLM Group believes that with their long standing industry experience in the local market, they can further utilize their competitive edge and mark a success in the potential new markets.

Investment in a food manufacturing plant

In May 2013, the Group had set up a food manufacturing plant in Hong Kong with floor area of approximately 35,000 sq. ft. for the development of branded bakery, cooked and packaged food business. The production lines commenced operation in August 2013. The recent success of FLM Group’s moon cake and Chinese new year cake products has assured the management of the FLM Group and the Company of the synergy effect between the branded food and its high-end catering services. The Company intends to build upon this opportunity and further develop branded food and/or gift business strategically in the future while strengthening its core operations. The Directors consider that the food manufacturing plant would broaden the income base and improve the financial performance of the Group.

The Board is still looking for other investment opportunities aiming at exploring the feasibility of further expansion in catering business.

Litigations

Details of litigations for the three months ended 31 March 2014 were set out under the section of "Litigations" on page 11 of the Company's annual report for the eight months ended 31 December 2013.

The Company will disclose any Megamillion Asia Limited's recovery action wherever appropriate or necessary.

Save as disclosed above, the Group has no other litigations as at the date of this report.

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation

As at 31 March 2014, the interests and short positions of the Directors and the chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long positions in the ordinary shares and underlying shares of HK\$0.01 each in the capital of the Company (the "Shares")

Name of Director	Nature of interests/ holding capacity	Number of Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of interests in the Company's issued share capital
Mr. Yeung Wai Hung, Peter	Personal	275,000	-	275,000	0.05%

Save as disclosed above, as at 31 March 2014, none of the Directors and the chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of the SFO), as recorded in the register required to be kept under Section 352 of the SFO; or as notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

Directors’ and Chief Executive’s Rights to Acquire Shares or Debentures

Save as disclosed under section “Directors’ and Chief Executive’s Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation” above, as at 31 March 2014, neither the Company nor any of its subsidiaries was a party to any arrangements whose objects are, or one of whose objects is, to enable the Directors and the chief executive of the Company to acquire benefits by means of the acquisition of Shares in, or debt securities, including debentures, of the Company or any other body corporate, or there have, at any time during the three months ended 31 March 2014, subsisted such arrangement(s) as aforesaid and none of the Directors and the chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

Substantial Shareholders and Other Persons with Interests and Short Positions in the Shares and Underlying Shares

As at 31 March 2014, the following parties, other than Directors and the chief executive of the Company, held interests or short positions (directly or indirectly) in the Company’s Shares or underlying Shares were recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Nature of interests/ holding capacity	Number of Shares/ Underlying Shares	Approximate total percentage of interests in the Company’s issued share capital (Note 1)
Upper Run Investments Limited ("Upper Run")	Beneficial owner	101,909,990 Shares* (Note 2)	19.28%
Ms. Chan Yuen Fan Winky ("Ms. Winky Chan")	Interest through controlled corporation	101,909,990 Shares* (Note 2)	19.28%
Major Ally Investments Limited ("Major Ally")	Beneficial owner	43,000,000 Shares* (Note 3)	8.13%
Fook Lam Moon Holdings Limited ("FLM Holdings")	Interest through controlled corporation	43,000,000 Shares* (Note 3)	8.13%
Mr. Chui Pui Kun ("Mr. CPK")	Interest through controlled corporation	43,000,000 Shares* (Note 4)	8.13%

OTHER INFORMATION

Name of shareholder	Nature of interests/ holding capacity	Number of Shares/ Underlying Shares	Approximate total percentage of interests in the Company's issued share capital (Note 1)
Mr. Chui Chan Oi Lin Eileen ("Mrs. Eileen Chui")	Interest of spouse	43,000,000 Shares* (Note 5)	8.13%
Mr. So Chi Ming ("Mr. SCM")	Beneficial owner	9,012,250 Shares*	9.84%
	Interest through controlled corporation	43,000,000 Shares* (Note 3)	
Ms. Yeung Sau Han Agnes ("Ms. Agnes Yeung")	Interest of spouse	52,012,250 Shares* (Note 6)	9.84%
China Merchants Securities Investment Management (HK) Co., Limited ("CMS Investment")	Beneficial owner	346,625,000 Underlying Shares* (Note 7)	65.60%
China Merchants Securities International Company Limited ("CMS International")	Interest through controlled corporation	346,625,000 Underlying Shares* (Note 7)	65.60%
China Merchants Securities Company Limited ("CMS")	Interest through controlled corporation	346,625,000 Underlying Shares* (Note 7)	65.60%
CGI (HK) Limited ("CGI HK")	Beneficial owner	42,780,000 Shares* (Note 8)	8.10%
CGI (Offshore) Limited ("CGI Offshore")	Interest through controlled corporation	42,780,000 Shares* (Note 8)	8.10%

OTHER INFORMATION

Name of shareholder	Nature of interests/ holding capacity	Number of Shares/ Underlying Shares	Approximate total percentage of interests in the Company's issued share capital (Note 1)
Chinese Global Investors Group Limited ("CGI Group")	Interest through controlled corporation	42,780,000 Shares* (Note 8)	8.10%
Mr. Tang Anthony Mong Fai ("Mr. Tang")	Beneficial owner	79,996,237 Shares*	15.14%
	Other	100,000,000 Underlying Shares#	18.92%

* Long Positions

Short Positions

Notes:

- As at 31 March 2014, the Company's issued ordinary share capital was HK\$5,283,600 divided into 528,360,000 Shares of HK\$0.01 each.
- These Shares were beneficially owned by Upper Run, a company incorporated in the British Virgin Islands, whose entire issued share capital is wholly and beneficially owned by Ms. Winky Chan. By virtue of the SFO, Ms. Winky Chan is deemed to be interested in the Shares held by Upper Run. Kingston Finance Limited ("Kingston") had a security interest in 1,010,000,000 Shares owned by Upper Run as at 31 January 2013, which related to the same block of the Shares held by Upper Run abovementioned. Based on disclosure of interest filed by Kingston on 6 February 2013, Kingston has no interests in the Company.

At the extraordinary general meeting of the Company held on 3 April 2013, proposals were put forward to the Shareholders to consider, among other things, every ten issued and unissued shares of HK\$0.001 each in the share capital of the Company being consolidated into one share of HK\$0.01 in the share capital of the Company have been approved by the Shareholders and came into effect on 5 April 2013.

- These Shares are beneficially owned by Major Ally, a company incorporated in the British Virgin Islands, whose entire issued share capital is beneficially owned by FLM Holdings and Mr. SCM respectively, 50% each. By virtue of the SFO, FLM Holdings and Mr. SCM are deemed to be interested in the Shares held by Major Ally.

OTHER INFORMATION

4. 50% issued share capital of Major Ally is owned by FLM Holdings which is in turn wholly owned by Mr. CPK. By virtue of the SFO, Mr. CPK is deemed to be interested in the Shares held by Major Ally as mentioned in Note 3 above.
5. Mrs. Eileen Chui is the spouse of Mr. CPK. By virtue of the SFO, Mrs. Eileen Chui is also deemed to be interested in the Shares held by Major Ally in which Mr. CPK is deemed to be interested as mentioned in Note 4 above.
6. Ms. Agnes Yeung is the spouse of Mr. SCM. By virtue of the SFO, Ms. Agnes Yeung is also deemed to be interested in (i) the 9,012,250 Shares personally held by Mr. SCM and (ii) the 43,000,000 Shares held by Major Ally in which Mr. SCM is deemed to be interested as mentioned in Note 3 above.
7. These underlying Shares represent a maximum of 346,625,000 new Shares that may be issued pursuant to the second subscription agreement dated 31 March 2014 entered into between the Company, CMS Investment, Mr. Tang and the Guarantors (defined in the announcement of the Company dated 1 April 2014) relating to the proposed issue of the secured convertible bonds by the Company at an aggregate principal amount of US\$37.5 million with the initial conversion price of HK\$0.56 per conversion share, details of which are set out in the announcement of the Company dated 1 April 2014, and in which are beneficially owned by CMS Investment whose entire issued share capital is beneficially owned by CMS International which in turn is wholly owned by CMS. By virtue of the SFO, each of CMS and CMS International is deemed to be interested in the underlying Shares held by CMS Investment.
8. These Shares are beneficially owned by CGI HK, a company incorporated in the British Virgin Islands, whose entire issued share capital is beneficially owned by CGI Offshore which in turn is wholly owned by CGI Group. By virtue of the SFO, each of CGI Offshore and CGI Group is deemed to be interested in the Shares held by CGI HK.

Save as disclosed above, the Directors were not aware of any other persons, other than the Directors or the chief executive of the Company who held an interest or short position in the shares and underlying shares of the Company as at 31 March 2014 which is required to be recorded pursuant to Section 336 of SFO.

Competing Interests

The Directors are not aware of any business or interest of the Directors, the substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the Reporting Period.

Purchase, Sale or Redemption of the Listed Securities of the Company

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Independent Non-executive Directors and Audit Committee

The Company has established the Audit Committee on 10 June 2003 with revised written terms of reference adopted on 15 March 2012 in compliance with the GEM Listing Rules. During the Reporting Period, the Audit Committee had three members comprising all the three independent non-executive Directors; namely, Mr. Matthew Pau (the chairman of the Audit Committee), Mr. Mok Tsan San and Mr. Yeung Wai Hung, Peter.

Mr. Mok Tsan San was redesignated as an executive Director on 1 April 2014 and he simultaneously ceased to be a member of the Audit Committee with effect from 1 April 2014.

Consequently, the number of independent non-executive Directors and members of the Audit Committee has fallen below the minimum number required by the GEM Listing Rules. The Company is endeavoring to identify suitable candidate to fill the vacancy within three months from the effective date of Mr. Mok's redesignation pursuant to the GEM Listing Rules.

The unaudited first quarterly results for the three months ended 31 March 2014 have been reviewed by the members of the Audit Committee which is comprising all the two independent non-executive Directors, Mr. Matthew Pau and Mr. Yeung Wai Hung, Peter, before recommending it to the Board for approval.

APPRECIATION

The Board would like to thank all business partners and shareholders of the Company for their continued support and confidence in our management and the Company. It is our vision to continue our Group's corporate strategy to explore other industries with good business potential and growth prospects to gain attractive returns for our investors.

By Order of the Board
Chinese Food and Beverage Group Limited
Yu Sau Lai
Executive Director

Hong Kong, 14 May 2014

As at the date of this report, Ms. Yu Sau Lai, Mr. Lam Raymond Shiu Cheung, Mr. Hu Dongguang and Mr. Mok Tsan San are executive Directors; Mr. So David Tat Man is a non-executive Director; and Mr. Matthew Pau and Mr. Yeung Wai Hung, Peter are independent non-executive Directors.



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Yu Sau Lai
Mr. Lam Raymond Shiu Cheung
Mr. Hu Dongguang
Mr. Mok Tsan San

Non-Executive Director

Mr. So David Tat Man

Independent Non-Executive Directors

Mr. Matthew Pau
Mr. Yeung Wai Hung, Peter

COMPANY SECRETARY

Ms. Yip Zodia Wang

COMPLIANCE OFFICER

Ms. Yu Sau Lai

AUDIT COMMITTEE

Mr. Matthew Pau (*Chairman*)
Mr. Yeung Wai Hung, Peter

REMUNERATION COMMITTEE

Mr. Yeung Wai Hung, Peter (*Chairman*)
Mr. Matthew Pau

NOMINATION COMMITTEE

Mr. Yeung Wai Hung, Peter (*Chairman*)
Mr. Matthew Pau

AUDITORS

ZHONGLEI (HK) CPA Company Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

4/F, Phase 1
Kaiser Estate
41 Man Yue Street
Hung Hom
Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
18/F., Fook Lee Commercial Centre
Town Place
33 Lockhart Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Fubon Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Wing Lung Bank Limited

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STOCK CODE

8272