



**ALPHA PEAK LEISURE INC.**

**NOTICE OF SPECIAL MEETING  
TO BE HELD ON JANUARY 24, 2019**

**AND**

**MANAGEMENT INFORMATION CIRCULAR**

**Dated as of December 21, 2018**



December 21, 2018

Dear Shareholder,

You are invited to attend a special meeting of shareholders of Alpha Peak Leisure Inc (the “**Company**”) to be held at 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3, Canada, on January 24, 2019 at 8:30 a.m. (Toronto time) (the “**Meeting**”) to consider and vote upon the Transaction, the Distribution and the Stated Capital Reduction (as such terms are defined herein).

On December 21, 2018, the Company announced that it was proposing to effect a cash distribution to shareholders by way of a return of capital (the “**Distribution**”) and to sell (the “**Transaction**”) all of the shares (“**TWEL Shares**”) of its wholly-owned subsidiary, Total Wonder Enterprises Limited (“**TWEL**”), to certain shareholders of the Company (the “**Purchasers**”). In connection with the Transaction, all shareholders of the Company will receive a cash distribution of \$0.075 per common share of the Company (the “**Common Share**”), and the stated capital of the Common Shares will be correspondingly reduced (the “**Stated Capital Reduction**”). The Purchasers, as shareholders of the Company, will apply all of their Distribution proceeds towards the purchase of the TWEL Shares.

Following completion of the Distribution, Stated Capital Reduction and the Transaction, you will continue to hold your existing Common Shares. The Company will remain a reporting issuer in the Provinces of British Columbia and Alberta and the Common Shares are expected to be listed on the NEX Board of the TSX Venture Exchange. The Company will be a “shell” company with no material assets or liabilities and no active business. The TWEL Shares will be owned exclusively by the Purchasers and TWEL will continue as a private company.

The Distribution, Stated Capital Reduction and the Transaction are subject to certain closing conditions including, without limitation, the approval thereof by the Company’s shareholders at the Meeting, and are expected to be completed in early 2019.

We have received a valuation report and fairness opinion from Hong Kong Appraisal Advisory Limited that the fair market value of the Company’s 100% equity interest in TWEL (including its subsidiaries) and the equity interest of TWEL indirectly held by the Disinterested Shareholders (which are the shareholders of the Company other than the Purchasers) as at September 30, 2018 is in the range of \$3,822,000 to \$4,718,000 (the “**Fair Market Value**”) and \$825,319 to \$1,021,823, respectively, and that the Distribution amount payable to the Disinterested Shareholders, which is \$1,473,783.68 (or \$0.075 on a per Common Share basis), is fair from a financial point of view to the Disinterested Shareholders of the Company as at December 19, 2018. The proposed cash Distribution of \$0.075 per Common Share represents a premium of approximately 27% to the average Fair Market Value per Common Share and a premium of approximately 28% over the 60-day volume weighted average trading price of the Common Shares on the TSX Venture Exchange prior to December 21, 2018 (being the date of announcement of the Distribution, Stated Capital Reduction and the Transaction).

After careful consideration and consultation with the Company’s management and its legal and other professional advisors and receipt and review of the recommendations of its independent special committee, your board of directors (the “**Board**”) has unanimously determined that the Distribution, Stated Capital Reduction and Transaction are in the best interests of the Company and its shareholders. Accordingly, the Board unanimously recommends that you **VOTE FOR** the special resolutions approving the Distribution and the Stated Capital Reduction and the Transaction. **The Transaction will only proceed to a vote if the Distribution and Stated Capital Reduction are first approved at the Meeting. Also, the Distribution and Stated Capital Reduction are conditional upon shareholder approval of the Transaction.**

We trust that the matters to be voted upon at the Meeting will receive your support. The accompanying Circular provides details of the Distribution, Stated Capital Reduction and the Transaction and includes the valuation report and fairness opinion. Please give this material your careful consideration and, if you require assistance, please consult your financial, income tax or other professional advisor.

Your vote is important. If you are unable to be present at the Meeting in person, we encourage you to vote by completing the relevant enclosed form of proxy or voting instruction form and delivering or submitting it as instructed therein.

You will have the right to dissent in respect of the resolution approving the Transaction (the “**Transaction Resolution**”). If the Transaction Resolution is passed, any dissenting shareholders have the right to be paid the fair value of their Common Shares. This dissent right is described in the Management Information Circular accompanying this letter. Failure to comply strictly with the requirements set forth in Division 2 of Part 8 of the *Business Corporations Act* (British Columbia) may result in the loss of any right of dissent.

On behalf of the Company, I would like to thank all of our shareholders for their ongoing support.

Sincerely,

ALPHA PEAK LEISURE INC.

“*Yuxiu Zhao*”

Yuxiu Zhao  
Chairperson and Acting Chief Executive Officer

## NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that a special meeting (the “**Meeting**”) of the shareholders of Alpha Peak Leisure Inc., a corporation existing under the laws of British Columbia (the “**Company**”), will be held at 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3, Canada, on Thursday, January 24, 2019 at 8:30 a.m. (Toronto time) for the following purposes:

1. if the Transaction Resolution (as defined below) is approved, to consider and, if thought appropriate, to approve a special cash distribution of \$0.075 per common share to shareholders of the Company as a return of capital and to approve a special resolution to reduce the stated capital of the common shares of the Company to effect such distribution, as more particularly described in this Notice of Meeting and Management Information Circular (the “**Circular**”);
2. to consider, and if thought appropriate, to approve a special resolution to authorize the Company to sell all of the shares of its wholly owned subsidiary, Total Wonder Enterprises Limited, to certain shareholders of the Company, as more particularly described in the Circular (the “**Transaction Resolution**”); and
3. to transact such other business as may properly be put before the Meeting or any adjournment or adjournments thereof.

**If you are a registered shareholder of the Company**, you are entitled to attend and vote at the Meeting in person or by proxy. The board of directors of the Company requests that all registered shareholders who will not be attending the Meeting in person read, date and sign the accompanying Form of Proxy and deliver it to Computershare Investor Services Inc. (“**Computershare**”) (Attention: Proxy Department), 510 Burrard Street, 3rd Floor, Vancouver, British Columbia, V6C 3B9, Canada, not less than 48 hours (excluding Saturdays, Sundays and holidays recognized in the Province of Ontario) before the Meeting, or adjournment or postponement thereof. Only shareholders of record at the close of business on December 17, 2018 will be entitled to vote at the Meeting or adjournments or postponements thereof.

**If you are not a registered shareholder of the Company**, a Voting Instruction Form, instead of a Form of Proxy, may be enclosed. You must follow the instructions, including deadlines for submission, on such form to vote your common shares of the Company.

A Management Information Circular which provides additional information about the matters to be put before the Meeting and a Form of Proxy (or Voting Instruction Form) accompany this Notice of Meeting.

Shareholders of the Company have the right to dissent in respect of the Transaction Resolution and, if the Transaction Resolution is passed, such dissenting shareholders have the right to be paid the fair value of their common shares. This dissent right is described in the Management Information Circular accompanying this Notice. Failure to comply strictly with the requirements set forth in Division 2 of Part 8 of the *Business Corporations Act* (British Columbia) may result in the loss of any right of dissent.

DATED at Toronto, Ontario, this 21<sup>st</sup> day of December, 2018.

**BY ORDER OF THE BOARD OF DIRECTORS**

*(signed) Yuxiu Zhao* \_\_\_\_\_

Yuxiu Zhao

Chairperson and Acting Chief Executive Officer

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# **ALPHA PEAK LEISURE INC.**

160-170 6751 Graybar Road  
Richmond, BC V6W 1H3

## **MANAGEMENT INFORMATION CIRCULAR**

(all information as at December 21, 2018, unless otherwise indicated)

### **FORWARD-LOOKING INFORMATION**

This management information circular (this “**Circular**”) contains “forward-looking information” within the meaning of applicable Canadian securities legislation. Forward-looking information may include, but is not limited to, statements with respect to the Distribution, the Stated Capital Reduction and the Transaction (as such terms are defined herein), future management of Total Wonder Enterprises Limited (“**TWEL**”), the future business of Alpha Peak Leisure Inc. (the “**Company**”) and TWEL, and activities, events or developments that management expects or anticipates will occur or may occur in the future. Often, but not always, forward-looking information can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “believes”, or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking information involves known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Company, as applicable, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in the forward-looking information, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking information contained herein is made as of the date of this Circular and, other than as required by securities law, the Company disclaims any obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise unless so required by applicable securities laws. There can be no assurance that the forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information.

### **DATE OF INFORMATION**

Except as otherwise stated, the information contained in this Circular is given as of December 21, 2018.

### **CURRENCY**

Unless otherwise specified, all dollar amounts in this Circular are expressed in Canadian dollars (“\$”). On December 20, 2018, the Bank of Canada daily average rate of exchange for the RMB 1 Yuan to \$ was 0.1960 and for the HK\$1.00 to \$ was 0.1724. On December 31, 2017, the Bank of Canada daily average rate of exchange for the RMB 1 Yuan to \$ was \$0.1928 and for the HK\$1.00 to \$ was 0.1605. On December 31, 2016, the Bank of Canada daily average rate of exchange for the RMB 1 Yuan to \$ was 0.1930 and for the HK\$1.00 to \$ was 0.1732.

## SUMMARY OF CIRCULAR

*The following is a summary of information contained elsewhere in this Circular. This summary is provided for convenience only and should be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing or referred to elsewhere in this Circular. Shareholders are urged to read this Circular, the documents incorporated herein by reference and the attached Schedules and Appendices in their entirety. Unless otherwise defined or unless the context otherwise requires, capitalized terms used in this Summary have the respective meanings given to them in this Circular.*

### **Purpose of the Meeting**

The purpose of the Meeting is for Shareholders to consider, and if thought appropriate, to approve (i) a special cash distribution of \$0.075 per Common Share to Shareholders as a return of capital (the “**Distribution**”) and a special resolution to reduce the stated capital of the common shares of the Company (the “**Stated Capital Reduction**”) to effect the Distribution, and (ii) a special resolution to authorize the Company to sell all of the shares (“**TWEL Shares**”) of its wholly-owned subsidiary, Total Wonder Enterprises Limited (“**TWEL**”), to certain Shareholders (the “**Transaction**”), all as more particularly described in this Circular.

The Company has determined that to approve such resolutions (collectively, the “**Resolutions**”), (a) a special majority of not less than two thirds of the votes cast, whether in person or by proxy, and (b) a simple majority (50% + 1) of the votes cast, whether in person or by proxy, at the Meeting and entitled to vote thereat, excluding the votes cast by such Shareholders that are required to be excluded pursuant to applicable securities laws and the rules of the TSXV (the “**Disinterested Shareholder Approval**”), must be in favour of the Resolutions. The Purchasers, other than Merit Sign Holding Limited, are insiders and/or directors of the Company. To the knowledge of the Company, after reasonable inquiry, an aggregate of 52,426,624 Common Shares (representing approximately 72.74% of the issued and outstanding Common Shares), being the Purchasers’ Common Shares, will be excluded for purposes of determining Disinterested Shareholder Approval. (See (i) “*Particulars of Matters to be Acted Upon - 1. The Distribution and Reduction of Stated Capital - Approval of the Distribution and Stated Capital Resolution*”, (ii) “*Particulars of Matters to be Acted Upon - 2. The Transaction - Approval of the Transaction Resolution*” and (iii) “*Related Party Transaction Disclosure*”).

**The Transaction will only proceed to a vote if the Distribution and Stated Capital Reduction are first approved at the Meeting. Also, the Distribution and Stated Capital Reduction are conditional upon Shareholder approval of the Transaction.**

### **Date, Time and Place of Meeting and Record Date**

The Meeting will be held at 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3, Canada, on Thursday, January 24, 2019 at 8:30 a.m. (Toronto time). The board of directors of the Company (the “**Board**”) has fixed December 17, 2018, at the close of business, as the record date for the determination of the Shareholders entitled to receive notice of the Meeting and to vote thereat (the “**Record Date**”). (See the Notice accompanying this Circular.)

### **The Distribution, Stated Capital Reduction and Transaction**

On December 21, 2018, the Company announced the Distribution and the Transaction. In connection with the Transaction, all Shareholders will receive a cash Distribution of \$0.075 per Common Share, which will be accompanied by the Stated Capital Reduction. The Purchasers, as Shareholders, will apply all of their Distribution proceeds towards the purchase of the TWEL Shares. (See “*Particulars of Matters to be Acted Upon - 1. The Distribution and Reduction of Stated Capital - Background to the Distribution and Stated Capital Resolution*”).

### **After Completion of the Distribution, Stated Capital Reduction and the Transaction**

Following completion of the Distribution, Stated Capital Reduction and the Transaction, Shareholders will continue to hold their existing Common Shares. The Company will remain a reporting issuer in the Provinces of British Columbia and Alberta and the Common Shares are expected to be listed on the NEX Board of the TSX Venture

Exchange. The Company will be a “shell” company with no material assets or liabilities and no active business. The TWEL Shares will be owned exclusively by the Purchasers and TWEL will continue as a private company. (See “*Particulars of Matters to be Acted Upon - 2. The Transaction - Corporate Structure Before and After the Transaction*”.)

### **Valuation Report and Fairness Opinion**

Hong Kong Appraisal Advisory Limited (the “**Valuator**”) has delivered to the Board an independent valuation report and related fairness opinion (the “**Valuation Report and Fairness Opinion**”) dated December 19, 2018. The Valuator has opined that the fair market value of the Company’s 100% equity interest in TWEL (including its subsidiaries) and the equity interest of TWEL indirectly held by the Disinterested Shareholders (which are the shareholders other than the Purchasers) as at September 30, 2018 is in the range of \$3,822,000 to \$4,718,000 (the “**Fair Market Value**”) and \$825,319 to \$1,021,823, respectively, and that the Distribution amount payable to the Disinterested Shareholders, which is \$1,473,783.68 (or \$0.075 on a per Common Share basis), is fair from a financial point of view to the Disinterested Shareholders of the Company as at December 19, 2018. The full text of the Valuation Report and Fairness Opinion is attached as Schedule C to this Circular. The Board recommends that Shareholders read the Valuation Report and Fairness Opinion in its entirety for a description of assumptions made, matters considered and limitations and qualifications on the review undertaken in connection with its preparation. It does not constitute a recommendation to Shareholders as to whether they should vote in favour of the Resolutions. It is one of many factors taken into consideration by the Board to unanimously approve the Distribution, Stated Capital Reduction and the Transaction. (See “*Particulars of Matters to be Acted Upon - 2. The Transaction - Valuation Report and Fairness Opinion*”.)

### **Recommendation of the Board**

After careful consideration and consultation with the Company’s management and its legal and other professional advisors and receipt and review of the recommendations of its independent special committee, the Board has unanimously determined that the Distribution, Stated Capital Reduction and Transaction are in the best interests of the Company and its Shareholders. Accordingly, the Board unanimously recommends that Shareholders VOTE FOR the Resolutions. (See (i) “*Particulars of Matters to be Acted Upon - 1. The Distribution and Reduction of Stated Capital - Approval of the Distribution and Stated Capital Resolution*”, and (ii) “*Particulars of Matters to be Acted Upon - 2. The Transaction - Approval of the Transaction Resolution*”.)

### **Rationale for the Transaction**

The Board considered a number of factors, including those set out below, as being the most relevant to their recommendation.

The Purchasers will hold shares in an operating company that will continue to operate the same business since the Company is currently a holding company, but will not have to be subject to the financial and administrative costs of public company compliance requirements. Shareholders can benefit from the following:

- *Common Shares are thinly traded* - The Common Shares are thinly traded, making it difficult for Shareholders to sell their Common Shares efficiently through the facilities of the TSXV. (See “*Market for Securities*”.)
- *Cash Proceeds* - Shareholders, other than the Purchasers, will be able to receive a Distribution without having to forgo their Common Shares. The amount of the Distribution per Common Share represents a premium of 28% of the 60-day volume weighted average trading price of the Common Shares prior to December 21, 2018 (being the date of announcement of the Distribution, Stated Capital Reduction and the Transaction).

- *Valuation Report and Fairness Opinion* - Based on financial advice the Board has received from the Valuator, the Board believes that the amount of the Distribution represents a 27% premium to the average fair market value of the TWEL Interest per Common Share. (See “*Particulars of Matters to be Acted Upon - 2. The Transaction - Valuation Report and Fairness Opinion*”.)
- *Decreased Administrative Expenses* - As a shell company, the Company will have minimal administrative expenses.
- *Continued Shareholder stake in the Company* - The Shareholders will continue to hold shares in a publicly listed company. The Company will continue to be a reporting issuer in British Columbia and Alberta and it is anticipated that the Common Shares will be listed on the NEX. To the extent the Company effects any material transactions at a future date, the Shareholders will get to participate in such transactions. (See “*Particulars of Matters to be Acted Upon - 2. The Transaction - Corporate Structure Before and After the Transaction*”.)

In addition, the Board noted the following procedural protections to Shareholders:

- *Minority Approval* - The Distribution and the Transaction will be subject to Disinterested Shareholder Approval. (See “*Related Party Transaction Disclosure*”.)
- *Dissent Rights* - If the Distribution proceeds, Shareholders who are not in favour of the Transaction will have the right to dissent and demand to be paid an amount equal to the fair value of their Common Shares determined immediately prior to the passing of the Distribution and Stated Capital Resolution and the Transaction Resolution. If dissent rights are exercised, a judicial process will be used to determine the fair value required to be paid to such dissenting Shareholders if the Company and the dissenting Shareholder cannot agree on the price. (See “*Particulars of Matters to be Acted Upon - 2. The Transaction - Rights of Dissent*”.)

#### **Certain Canadian Federal Tax Considerations Relating to the Distribution**

Schedule A to this Circular sets out certain Canadian income tax considerations to a Canadian holder of Common Shares arising in respect of the Distribution and the Stated Capital Reduction.

## SOLICITATION OF PROXIES

**This Circular is provided in connection with the solicitation of proxies by the management of the Company for use at the special meeting of shareholders (“Shareholders”) of the Company (the “Meeting”) to be held on January 24, 2019, at the time and place and for the purposes set forth in the accompanying notice of meeting (the “Notice of Meeting”), or at any adjournments or postponements thereof.** It is expected that the solicitation will be primarily by mail, but proxies may also be solicited in person or by telephone or facsimile by employees of the Company. The cost of solicitation will be borne by the Company.

No person has been authorized to give any information or to make any representation other than as contained in this Circular in connection with the solicitation of proxies. If given or made, such information or representations must not be relied upon as having been authorized by the Company. The delivery of this Circular shall not create, under any circumstances, any implication that there has been no change in the information set forth herein since the date of this Circular. This Circular does not constitute the solicitation of a proxy by anyone in any jurisdiction in which such solicitation is not authorized, or in which the person making such solicitation is not qualified to do so, or to anyone to whom it is unlawful to make such an offer of solicitation.

## APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed Form of Proxy include an officer and a director of the Company. A Shareholder of the Company wishing to appoint some other person (who need not be a Shareholder) to represent such Shareholder at the Meeting may do so by inserting the appointee’s name in the blank space provided in the Form of Proxy and depositing the duly completed Form of Proxy at the registered office of the Company’s transfer agent indicated on the enclosed envelope not less than 48 hours prior to the Meeting or adjournment thereof (exclusive of Saturdays, Sundays and holidays recognized in the Province of Ontario).

Any proxy given may be revoked by instrument in writing, including another proxy bearing a later date, executed by the Shareholder or by his or her attorney authorized in writing, and deposited at the registered office of the Company’s transfer agent at any time prior to the close of business on the second business day preceding the date of the Meeting or any adjournment thereof or in any other manner permitted by law. The Shareholder may choose to attend the Meeting or any adjournment thereof in person and exercise their voting rights.

The Form of Proxy must be signed and dated by the Shareholder or by his or her attorney in writing, or, if the Shareholder is a corporation, it must either be under its common seal or signed by a duly authorized officer. Persons signing as executors, administrators, trustees or in any other representative capacity should so indicate and give their full title as such. If a Shareholder does not deliver a Form of Proxy to the Company’s transfer agent by 8:30 a.m. (Toronto time) on January 22, 2019 (or before 48 hours, excluding Saturdays, Sundays and holidays before any adjournment of the Meeting at which the proxy is to be used) then the Shareholder will not be entitled to vote at the Meeting by proxy. Late Forms of Proxy may be accepted or rejected by the Chairman of the Meeting in his or her discretion. However, the Chairman is under no obligation to accept or reject any particular late Forms of Proxy.

## EXERCISE OF DISCRETION BY PROXY

A Shareholder forwarding the enclosed Form of Proxy may indicate the manner in which the appointee is to vote with respect to any specific item by checking the appropriate space. The persons named in the enclosed Form of Proxy will vote the common shares of the Company (“**Common Shares**”) in respect of which they are appointed in accordance with the directions, if any, of the Shareholders appointing them. **In the absence of such directions, such shares will be voted in favour of the motions proposed to be made at the Meeting as stated under the headings in this Circular. The enclosed Form of Proxy confers discretionary authority upon the persons named therein with respect to any amendment or variation to matters identified in the Notice of Meeting and to any other matter which may properly come before the Meeting.** At the time of printing this Circular, management of the Company knows of no such amendments, variations or other matters to come before the Meeting. However, in either case, the persons named in the Form of Proxy will vote according to their best judgment.

## NON-REGISTERED SHAREHOLDERS

**The information set forth in this section is of significant importance to many Shareholders as a substantial number of Shareholders do not hold Common Shares in their own name.** Only registered Shareholders or the persons they appoint as their proxies are permitted to vote at the Meeting. However, in many cases, Common Shares beneficially owned by a person (a “**Non-Registered Holder**”) are registered either: (i) in the name of an intermediary (an “**Intermediary**”) that the Non-Registered Holder deals with in respect of the Common Shares, such as securities dealers or brokers, banks, trust companies, and trusts or other financial institutions; or (ii) in the name of a clearing agency of which the Intermediary is a participant. In accordance with National Instrument 54-101 of the Canadian Securities Administrators, entitled “*Communication with Beneficial Owners of Securities of a Reporting Issuer*” (“**NI 54-101**”), the Company has distributed copies of the Notice of Meeting and Circular (collectively, the “**Meeting Materials**”) to the clearing agencies and Intermediaries for distribution to Non-Registered Holders. Intermediaries are required to forward the Meeting Materials to Non-Registered Holders, unless a Non-Registered Holder has waived the right to receive them, and often use a service corporation for this purpose. Non-Registered Holders will either:

- (a) be provided with a computerized form (often called a “voting instruction form”) which is not signed by the Intermediary and which, when properly completed and signed by the Non-Registered Holder and returned to the Intermediary or its service corporation, will constitute voting instructions which the Intermediary must follow. In order for the applicable computerized form to validly constitute a voting instruction form, the Non-Registered Holder must properly complete and sign the form and submit it to the Intermediary or its service corporation in accordance with the instructions of the Intermediary or service corporation. In certain cases, the Non-Registered Holder may provide such voting instructions to the Intermediary or its service corporation through the internet or through a toll-free telephone number; or
- (b) be given a proxy form which has already been signed by the Intermediary (typically by a facsimile, stamped signature), which is restricted to the number of shares beneficially owned by the Non-Registered Holder but which is otherwise not completed. In this case, the Non-Registered Holder who wishes to submit a proxy should properly complete the proxy form and submit it to Computershare Investor Services Inc. (Attention: Proxy Department), 510 Burrard Street, 3rd Floor, Vancouver, British Columbia, V6C 3B9, Canada.

In either case, the purpose of these procedures is to permit Non-Registered Holders to direct the voting of the Common Shares which they beneficially own. Should a Non-Registered Holder who receives a voting instruction form wish to vote at the Meeting in person (or have another person attend and vote on behalf of the Non-Registered Holder), the Non-Registered Holder should print his or her own name, or that of such other person, on the voting instruction form and return it to the Intermediary or its service corporation. Should a Non-Registered Holder who receives a proxy form wish to vote at the Meeting in person (or have another person attend and vote on behalf of the Non-Registered Holder), the Non-Registered Holder should strike out the names of the persons set out in the proxy form and insert the name of the Non-Registered Holder or such other person in the blank space provided and submit it to Computershare Investor Services Inc. at the address set out above. **In all cases, Non-Registered Holders should carefully follow the instructions of their Intermediary, including those regarding when, where and by what means the voting instruction form or proxy form must be delivered.** A Non-Registered Holder may revoke voting instructions which have been given to an Intermediary by written notice to the Intermediary in accordance with its instructions.

The Company will pay for an Intermediary to deliver Meeting Materials and voting instruction forms to objecting beneficial owners (“**OBOs**”). OBOs have objected to their intermediary disclosing ownership information about themselves to the Company and, therefore, the Company has delivered copies of the Meeting Materials to Intermediaries for distribution to OBOs. The Company is not relying on the “notice-and-access” delivery procedures outlined in NI 54-101 to distribute copies of the Meeting Materials.

## APPROVAL OF MATTERS

The Form of Proxy forwarded to holders of Common Shares affords the Shareholder the opportunity to specify the manner in which the proxy nominees are to vote with respect to the Distribution and Stated Capital Resolution and the Transaction Resolution (as such terms are defined below) by checking the appropriate space in order to indicate whether the Common Shares registered in the Shareholder's name shall be voted "FOR" or "AGAINST" such resolutions. The Company has determined that to approve such resolutions, (a) a special majority of not less than two thirds of the votes cast, whether in person or by proxy, and (b) a simple majority (50% + 1) of the votes cast, whether in person or by proxy, at the Meeting and entitled to vote thereat, excluding the votes cast by such Shareholders that are required to be excluded under Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* ("MI 61-101") and the policies of the TSX Venture Exchange ("TSXV") (the "Disinterested Shareholder Approval"), must be in favour of the Distribution and Stated Capital Resolution and the Transaction Resolution.

## VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

The board of directors of the Company (the "Board") has fixed December 17, 2018, at the close of business, as the record date for the determination of the Shareholders entitled to receive notice of the Meeting and to vote thereat (the "Record Date"). All holders of at least one Common Share of the Company as of that date will have the right to vote at the Meeting.

As of the Record Date, 72,077,073 Common Shares were issued and outstanding, each giving the right to one vote on all matters to be acted upon at the Meeting. All such holders of record of Common Shares on the Record Date are entitled either to attend and vote thereat in person the Common Shares held by them or, provided a completed and executed proxy shall have been delivered to the Company's transfer agent, Computershare Investor Services Inc., within the time specified in the attached Notice of Meeting, to have the Common Shares held by them voted thereat by proxy.

To the knowledge of the directors and officers of the Company, the only persons, firms or corporations who own, as of the Record Date, directly or indirectly, or exercise control or direction over voting securities of the Company carrying more than 10% of the voting rights attached to any class of voting securities of the Company are as follows:

Shareholder Name	Number of Common Shares	Percentage of Issued and Outstanding Common Shares
CN Lifestyle Limited	25,106,746	34.83%
Peter Kai-Sing So	10,361,351	14.38%
Yuxiu Zhao <sup>(1)</sup>	7,730,593	10.73%

**Note:**

- (1) Ms. Yixiu Zhao is the Chairperson and Acting Chief Executive Officer of the Company.

## PARTICULARS OF MATTERS TO BE ACTED UPON

### 1. THE DISTRIBUTION AND REDUCTION OF STATED CAPITAL

#### Background to the Distribution and Stated Capital Resolution

The Company proposes to sell all of the outstanding shares (the “**TWEL Shares**”) of its wholly-owned operating subsidiary, TWEL, to the following purchasers (the “**Purchasers**”), each of whom holds the number of and percentage of outstanding Common Shares set out opposite their names and proposes to purchase the number of and percentage of TWEL Shares at the purchase price set out opposite their names (the “**Transaction**”):

Name of Purchaser	Number of Common Shares / Percentage of Outstanding Common Shares	Number of TWEL Shares / Percentage of TWEL Shares proposed to be purchased (Purchase Price)
CN Lifestyle Limited <sup>(1)</sup>	25,106,746 / 34.83%	13,854 / 47.89% (\$1,883,005.95)
Peter Kai-Sing So	10,361,351 / 14.38%	5,718 / 19.76% (\$777,101.33)
Yuxiu Zhao <sup>(2)</sup>	7,730,593 / 10.73%	4,266 / 14.75% (\$579,794.48)
Belva Global Company Limited <sup>(3)</sup>	5,555,556 / 7.71%	3,066 / 10.60% (\$416,666.70)
Merit Sign Holding Limited	3,672,378/ 5.10%	2,026/ 7.00% (\$275,428.35)
Total	52,426,624 / 72.74%	28,930 / 100% (\$3,931,996.80) <sup>(4)</sup>

**Notes:**

- (1) Controlled by Messrs. Bob Hot-Hoi Chong and Charles Hok-Hei Chong who are former directors of the Company.
- (2) Ms. Zhao is the Chairperson and Acting Chief Executive Officer of the Company.
- (3) Wholly owned by Ms. Pennie Baihan Zong, a director of the Company.
- (4) TWEL will also pay the Company \$1,473,783.68 upon redemption of 10,843 TWEL Shares, which amount is also equal to the Distribution amount payable to Shareholders other than the Purchasers (and which, together with the aggregate Purchase Price to be paid by the Purchasers for the TWEL Shares, results in aggregate Transaction consideration of \$5,405,780.48. See “*Particulars of Matters to be Acted Upon - 2. The Transaction - Overview of Sale of TWEL Shares*”, “*- Implementation of the Transaction*” and “*- Valuation Report and Fairness Opinion*”.

(See “2. *The Transaction*”, below, for further details of the Transaction).

In connection with the Transaction, the Company proposes to distribute to each Shareholder of record on such date as the Board in its sole discretion may determine (the “**Distribution Record Date**”) a cash distribution of \$0.075 per Common Share by way of a return of capital (the “**Distribution**”). A return of capital to Shareholders requires a reduction in the stated capital of the Common Shares.

**Shareholders, other than the Purchasers, will receive the Distribution in the form of cash. Purchasers will apply their proceeds from the Distribution to purchase TWEL Shares pursuant to the Transaction by means of a set-off. No cash payment will be made to the Purchasers on account of the Distribution.**

**All Shareholders will retain their Common Shares, and are not expected to exchange or forfeit any Common Shares to receive their Distribution.**

#### Valuation Report and Fairness Opinion

Based on the independent valuation report and related fairness opinion (the “**Valuation Report and Fairness Opinion**”) of Hong Kong Appraisal Advisory Limited (the “**Valuator**”) dated December 19, 2018 and 72,077,073 Common Shares outstanding on the Record Date, the Valuator has opined that the fair market value of the Company’s 100% equity interest in TWEL (including its subsidiaries) and the equity interest of TWEL indirectly

held by the Disinterested Shareholders (which are the Shareholders other than the Purchasers) as at September 30, 2018 is in the range of \$3,822,000 to \$4,718,000 (the “**Fair Market Value**”) and \$825,319 to \$1,021,823, respectively, and that the Distribution amount payable to the Disinterested Shareholders, which is \$1,473,783.68 (or \$0.075 on a per Common Share basis), is fair from a financial point of view to the Disinterested Shareholders of the Company as at December 19, 2018. (See “2. *The Transaction - Valuation Report and Fairness Opinion*”, below.) In connection with the Transaction, the Company proposes to distribute \$0.075 per Common Share pursuant to the Distribution, representing a premium of at least 27% to the average Fair Market Value per Common Share.

### **Certain Canadian Federal Tax Considerations Relating to the Distribution**

Schedule A to this Circular sets out certain Canadian income tax considerations to a Canadian holder of Common Shares arising in respect of the Distribution and the reduction of stated capital.

### **Approval of the Distribution and Stated Capital Resolution**

While the Distribution itself does not require approval by Shareholders under British Columbia corporate law, a return of capital to the Shareholders requires a reduction in the stated capital of the Common Shares (the “**Stated Capital Reduction**”). The alternative to the Distribution to Shareholders as a return of capital would be for the Company to make the Distribution as a dividend in kind. Such a dividend would be a taxable dividend for the purposes of the *Income Tax Act* (Canada). Accordingly, at the Meeting, Shareholders will be asked to consider and, if thought advisable, approve, with or without variation, a special resolution authorizing the Company to reduce the stated capital of the Common Shares by an amount equal to the aggregate amount of the Distribution, being \$5,405,780.48, for the purpose of effecting this one-time special distribution by way of a return of capital (the “**Stated Capital Resolution**”).

Furthermore, as set forth under “*Related Party Transaction Disclosure*”, below, the rules of the TSXV and MI 61-101, require Disinterested Shareholder Approval for the Distribution (the “**Distribution Resolution**”). Accordingly the Distribution Resolution will be combined with the Stated Capital Resolution, (collectively, the “**Distribution and Stated Capital Resolution**”) and the Company has decided to seek approval for both by special resolution and by Disinterested Shareholder Approval.

The text of the Distribution and Stated Capital Resolution shall be substantially as follows:

#### **“WHEREAS:**

1. Alpha Peak Leisure Inc. (the “**Company**”) intends to make a one-time distribution (the “**Distribution**”), in the form and as described in the Management Information Circular of the Company dated December 21, 2018 (the “**Circular**”), on a date (the “**Distribution Date**”) to be determined by the board of directors of the Company (the “**Board**”), in its sole discretion, to the holders of Common Shares of record on a date to be determined by the Board, in its sole discretion, by way of a return of capital and corresponding reduction in the stated capital of the Common Shares in an aggregate amount equal to the aggregate amount of the Distribution (collectively, the “**Distribution Amount**”);
2. the Distribution Amount is not to exceed the current stated capital attributable to the Common Shares on the Distribution Date; and
3. there are no reasonable grounds for believing that the realizable value of the Company’s assets would, after the reduction, be less than the aggregate of its liabilities;

#### **BE IT RESOLVED, AS A SPECIAL RESOLUTION THAT:**

1. the Distribution is hereby approved;
2. the stated capital account of the Common Shares shall be reduced by the Distribution Amount;

3. any officer or director of the Company is hereby authorized and directed for and on behalf of the Company to execute or cause to be executed, under the seal of the Company or otherwise, and to deliver or cause to be delivered all such documents, agreements and instruments, and to perform or cause to be performed all such acts and things, as such officer or director shall determine to be necessary or desirable to give full effect to this resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of such documents, agreements or instruments or the performing or causing to be performed of such other acts or things; and
4. notwithstanding that this special resolution has been duly passed by the holders of Common Shares, the Board, in its sole and absolute discretion, may defer acting on this special resolution or revoke this special resolution at any time before it is acted upon without further approval, ratification or confirmation by or prior notice to the holders of Common Shares.”

The Distribution and Stated Capital Resolution requires the approval of a special majority of not less than two thirds of the votes cast at the Meeting, in person or by proxy, as well as Disinterested Shareholder Approval. **HOWEVER, to proceed with the Distribution and Stated Capital Reduction, the Transaction Resolution must also be approved.** The Transaction Resolution will proceed to a vote only if the Distribution and Stated Capital Resolution is approved at the Meeting.

If the Distribution and Stated Capital Resolution, as well as the Transaction Resolution, are approved by the Shareholders at the Meeting, the Board intends to cause the Company to effect the Distribution as soon as practicable after the Meeting, subject to applicable statutory and regulatory requirements and to the exercise by the Board of its fiduciary duties.

**The Board believes that the proposed Distribution is in the Company’s best interests and therefore unanimously recommends that Shareholders vote in favour of the Distribution and Stated Capital Resolution. It is the intention of the persons named in the enclosed Form of Proxy, if not expressly directed to the contrary in such Form of Proxy, to vote the proxy IN FAVOUR of the Distribution and Stated Capital Resolution at the Meeting.**

Notwithstanding approval of the Distribution and Stated Capital Resolution by Shareholders, the Board, in its sole discretion, may determine not to proceed with the Distribution (or the Transaction) without further approval or action by or prior notice to Shareholders, in which case, the Board will revoke the Distribution and Stated Capital Resolution. If the Distribution and Stated Capital Resolution is not approved by the Shareholders at the Meeting, the Board will not proceed with the Distribution or the Transaction.

#### **Procedure to Receive the Distribution**

If both the Distribution and Stated Capital Resolution and the Transaction Resolution are approved by the Shareholders and the Company proceeds with the Distribution, the Distribution is expected to be effected by the Company on the date that is not later than 14 days after the Distribution Record Date or at such other date to be determined by the Board in its sole discretion (the “**Distribution Date**”), being the effective date of the Distribution.

#### **Ex-Distribution Trading and Due Bills**

The current practice in the Canadian securities industry is for the securities of an issuer to commence trading “ex-distribution” (the date on which purchases of the security will no longer have an attaching right to the distribution) one trading day prior to the record date. As there can be several days, or even several weeks, between the ex-distribution date and the distribution payment date, this means there will likely be a timing difference between the date when the market price of the security falls to reflect the distribution, and the date when the distribution is actually received in the Shareholder’s brokerage account. This leads to a temporary undervaluation of the Shareholder’s holding in that security. By undervaluing the Shareholder’s true portfolio position, issues may arise. For example, if the position was purchased on margin, the account may now appear to be under-margined and a margin-call may be incorrectly issued to the Shareholder. Additionally, the performance of the account could also be misstated, leading to Shareholder confusion and concern.

To avoid these issues, the Canadian securities industry has embarked on an initiative known as “Due Bill” trading, and the TSXV has adopted a policy with regard to Due Bill trading to ensure that securities in question will carry their appropriate value in the marketplace until after the distribution payment date. Due Bills are entitlements attached to listed securities undergoing certain material corporate events such as stock-splits, spin-offs or distributions representing 25% or more of the value of the listed security. Securities trading with Due Bills attached obligate the seller to deliver the entitlement to the buyer.

Pursuant to the policy, the TSXV will normally defer ex-distribution trading and use Due Bills when the distribution per listed security represents 25% or more of the value of the listed security on the Distribution Record Date. Without the use of Due Bills, trading on an ex-distribution basis would commence one trading day prior to the record date for the distribution, and Shareholders would then be deprived of the value of the distribution between the ex-distribution date and the distribution payment date. By deferring the ex-distribution date through the use of Due Bills, sellers of the listed securities during this period can realize the full value of the listed securities they hold, by selling the securities with the Due Bills attached. When Due Bills are used, ex-distribution trading usually commences at the opening on the first trading day after the distribution payment date. The TSXV has advised the Company that, based on the current market price of the Common Shares on the TSXV, Due Bills are expected to be used for the proposed Distribution.

## **2. THE TRANSACTION**

### **Overview of Sale of TWEL Shares**

In connection with the Distribution, the Shareholders will be asked to consider and, if thought advisable, to pass, with or without variation, a special resolution to approve the Transaction to the Purchasers, which Purchasers are listed in the chart under “*1. The Distribution and Reduction of Stated Capital - Background to the Distribution and Stated Capital Resolution*”.

The Purchasers have each entered into a share purchase agreement (the “**Share Purchase Agreement**”) pursuant to which they have agreed to acquire from the Company TWEL Shares for an aggregate purchase price (the “**Purchase Price**”) equal to the aggregate Distribution amount that is owing to the Purchasers (the “**Distribution Entitlement**”). The exact number of TWEL Shares to be acquired by each Purchaser was calculated based on their pro-rata shareholdings in the Company and has an aggregate value equal to that Purchaser’s pro-rata portion of the Distribution Entitlement. The Purchase Price will be settled by each Purchaser by means of a set-off against the Distribution Entitlement. Accordingly, the Purchasers will not receive their Distribution Entitlement in cash, but will instead receive TWEL Shares in full satisfaction of such Distribution Entitlement.

Since the Transaction amounts to a sale of all or substantially all of the assets of the Company, under British Columbia corporate law, the Transaction must be approved by special resolution (the “**Transaction Resolution**”), meaning that a special majority of not less than two thirds of the votes cast, whether in person or by proxy, must approve the Transaction. In addition, as further noted below, the Transaction Resolution must also receive Disinterested Shareholder Approval.

**After completion of the Transaction, the Company will no longer hold shares in any companies and will be a shell company whose sole asset will be cash on hand. The Company expects to have working capital to cover at least 12 months of operations.**

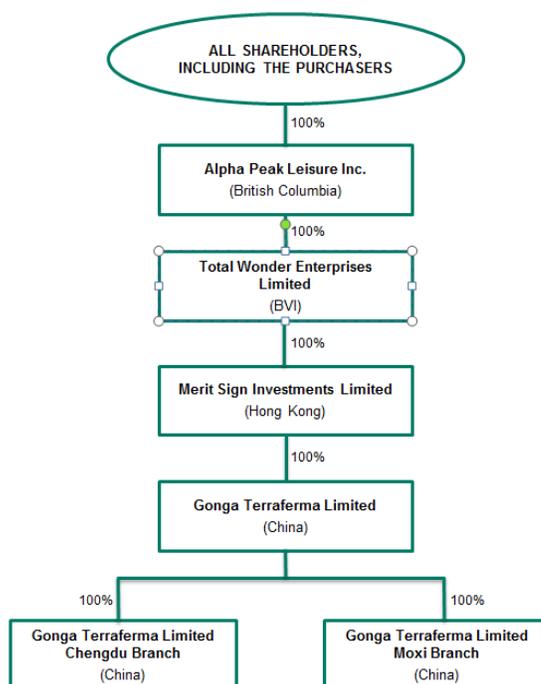
### **Corporate Structure Before and After the Transaction**

The Company is a corporation existing under the laws of the Province of British Columbia. The Common Shares are listed on the TSXV under the symbol “AAP”. Its head office is located at 160 - 170 - 6751 Graybar Road, Richmond, British Columbia, V6W 1H3. The Company is a reporting issuer in the Provinces of British Columbia and Alberta.

The Company was incorporated on June 24, 2011 under the *Business Corporations Act* (British Columbia) (“**BCBCA**”) and commenced trading on the TSXV as a Capital Pool Company pursuant to TSXV Exchange Policy 2.4. On June 23, 2015, the Company completed a qualifying transaction pursuant to the policies of the TSXV through a private placement financing and an amalgamation with 1016772 B.C. Ltd., a private limited company incorporated under the BCBCA to continue as “Alpha Peak Leisure Inc.”.

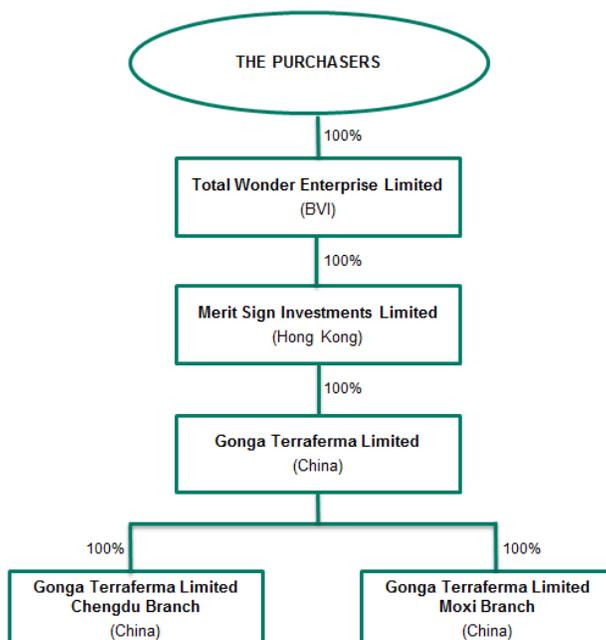
The Company is a holding corporation which, through its wholly-owned subsidiary, TWEL, has a 40-year operating and development right with the Hailuo Valley Scenic Area Administration for Swallows’ Gully Scenic Area (“**Swallows’ Gully**”), a national scenic location and large scale tourist attraction site in Sichuan Province, the People’s Republic of China (the “**PRC**”) encompassing an area of approximately 593 km<sup>2</sup> in close proximity to Hailuoguo National Forest park within the Ganzi Tibetan Autonomous Prefecture in Sichuan, China.

The following chart illustrates the current corporate structure of the Company and each of its subsidiaries prior to the Transaction:



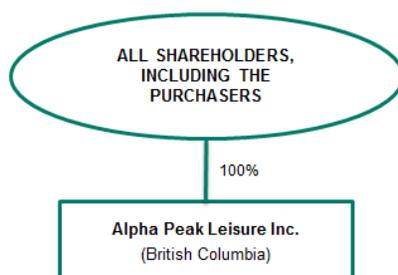
Prior to the date hereof, each of the Purchasers has entered into their respective Share Purchase Agreements with the Company, pursuant to which the Purchasers have agreed to purchase the number of TWEL Shares set forth in “*Schedule B - Information Concerning Total Wonder Enterprises Limited - Principal Securityholders*”.

The following chart illustrates the corporate structure of TWEL as a result of the Distribution and the Transaction:



TWEL and its subsidiaries will continue to operate their existing businesses. The principal activities of TWEL are the development and operation of Swallows’ Gully, a large scale tourist attraction site in Sichuan Province, PRC. Unless the context otherwise requires, “TWEL” refers to TWEL and its subsidiaries. Purchasers should see “Schedule B - *Information Concerning Total Wonder Enterprises Limited*” for further details of TWEL’s business and properties. It is not currently anticipated that the TWEL Shares will be listed on any stock exchange in Canada or in any other country. Accordingly, the TWEL Shares will be subject to certain resale restrictions as further discussed below. Purchasers should see “2. *The Transaction - Canadian Securities Law Considerations*”.

The following chart illustrates the corporate structure of the Company after the Distribution and the Transaction:



After the Transaction, the Company will be an inactive shell company and will not hold any assets except for cash of approximately \$372,000. The Company anticipates moving the listing of the Common Share from the TSXV to the NEX Board of the TSXV as a result of it not being able to meeting continued listing requirements of the TSXV. The Company will continue to be a reporting issuer in British Columbia and Alberta.

## Implementation of the Transaction

If both the Distribution and Stated Capital Resolution and Transaction Resolution are approved, the Distribution and Transaction will be implemented as follows:

- 1) TWEL will redeem 10,843 TWEL Shares from the Company for \$1,473,783.68 to enable the Company to finance the cash portion of the Distribution (i.e., the Distribution amount payable to the Shareholders, other than the Purchasers) (the “Redemption Consideration”).
- 2) The Shareholders, other than the Purchasers, will receive the cash Distribution of \$0.075 per Common Share on the Distribution Date.
- 3) Pursuant to the Share Purchase Agreements, the Purchasers will set off their Distribution Entitlement against the Purchase Price for their TWEL Shares to purchase the balance of the TWEL Shares.
- 4) As a result it is anticipated that:
  - (a) Each Shareholder, including the Purchasers, will retain their Common Shares. The Company is expected to remain a public company, listed on the NEX.
  - (b) The Purchasers will own all of the outstanding TWEL Shares. TWEL will remain a private company under the laws of the British Virgin Islands.

## Share Purchase Agreements

Prior to the date hereof, each Purchaser has executed a Share Purchase Agreement. Each Share Purchase Agreement provides that, on completion of the Transaction, each Purchaser will acquire their pro rata number of TWEL Shares in exchange for their pro rata portion of the Purchase Price, all as more particularly set forth under the headings “Particulars of Matters to be Acted Upon - 1. The Distribution and Reduction of Stated Capital - Background to the Distribution and Stated Capital Resolution”.

The Purchase Price will be settled by each Purchaser by means of set-off against that Purchaser’s Distribution Entitlement.

Each Share Purchase Agreement provides that the closing of the Transaction will be subject to certain customary closing conditions including, without limitation: (i) a bring-down of representations, warranties and covenants of each party, (ii) receipt of all requisite approvals, including shareholder approval for the Distribution, Stated Capital Reduction and the Transaction, (iii) completion of the Distribution (and related redemption of TWEL Shares) concurrently with the Transaction, and (iv) there being no pending or threatened legal or regulatory action or proceeding to enjoin, restrict or prohibit the Transaction. The Transaction will only be implemented if the Board decides to proceed with the Distribution and Stated Capital Reduction.

Each Share Purchase Agreement further provides that such agreement may, by notice in writing given at or prior to the Closing, be terminated: (i) by mutual consent of the Company and the Purchaser; (ii) by the Purchaser if any of the conditions precedent for the benefit of the Purchaser have not been satisfied on or before March 30, 2019 and the Purchaser has not waived such condition prior to the Closing, unless such failure shall be due to the failure of the Purchaser to perform or comply with any of the covenants, agreements or conditions to be performed or complied with by it prior to the Closing; or (iii) by the Company if any of the conditions precedent for the benefit of the Company have not been satisfied on or before March 30, 2019 and the Company has not waived such condition at or prior to the Closing, unless such failure shall be due to the failure of the Company to perform or comply with any of the covenants, agreements or conditions to be performed or complied with by it prior to the Closing.

## Related Internal Restructuring

In connection with the Transaction, it is expected that the Company and TWEL will implement certain internal restructuring steps (the “**Internal Restructuring**”) with respect to an outstanding intercompany loan (the “**MS Loan**”) in the principal amount of \$1,203,021 owing by the Company to Merit Sign. In this regard, it is expected that Merit Sign will effect a distribution of the receivable under the MS Loan (the “**MS Receivable**”) to TWEL by means of a return of capital distribution. TWEL will subsequently agree to effect a distribution (the “**TWEL Distribution**”) by means of a return of capital in an amount (the “**TWEL Distribution Amount**”) equal to the MS Receivable. The TWEL Distribution Amount will be set-off against the MS Receivable and the MS Receivable will be extinguished. No cash payment will be made to the Company on account of the TWEL Distribution.

## Background to the Transaction

Throughout fiscal year 2018, management and the board of directors of the Company, in consultation with the Company’s advisors, considered various strategic options with respect to the Company and TWEL and their respective operations. This included consideration and analysis of various spin-off alternatives involving TWEL and other go-private transaction alternatives.

On August 29, 2018, the Board established a committee of independent members of the Board comprised of Jin Ren and Kevin Wei (the “**Special Committee**”) to: (i) consider and advise the Board as to whether the spin-off of TWEL (the “**Spin-Off**”) was in the best interests of the Company; (ii) if thought advisable and necessary, to canvass any revisions to the structure of the proposed Spin-Off; and (iii) if the proposed Spin-Off is approved, to maintain, on behalf of the Board, a review of its implementation.

On September 5, 2018, the Company entered into an engagement letter with the Valuator pursuant to which the Valuator agreed to provide an independent valuation report and an independent opinion as to whether the transaction is fair from a financial point of view to the Disinterested Shareholders (which are the shareholders of the Company other than the Purchasers).

On October 22, 2018, the Special Committee and certain members of management participated in a call with counsel for the Company, Baker & McKenzie LLP, to discuss various transaction structuring considerations.

Throughout November and December 2018, management of the Company (under the supervision of the Special Committee) worked with its advisors to finalize the transaction structure and requisite documentation.

On December 19, 2018, the Special Committee received the Valuation Report and Fairness Opinion, pursuant to which the Valuator stated that in its opinion, after taking into account the valuation approaches taken therein, the fair market value of the Company’s 100% equity interest in TWEL (including its subsidiaries) (the “**TWEL Interest**”) and the equity interest of TWEL indirectly held by the Disinterested Shareholders (which are the shareholders other than the Purchasers) as at September 30, 2018 is in the range of \$3,822,000 to \$4,718,000 (the “**Fair Market Value**”) and \$825,319 to \$1,021,823, respectively, and that the Distribution amount payable to the Disinterested Shareholders, which is \$1,473,783.68 (or \$0.075 on a per Common Share basis), is fair from a financial point of view to the Disinterested Shareholders of the Company as at December 19, 2018. (See “*Valuation Report and Fairness Opinion*”.) Following review and consideration of the Valuation Report and Fairness Opinion, the Special Committee recommended to the Board that the Company enter into the Transaction and that the Company effect the Distribution such that Shareholders, other than the Purchasers, would receive the cash Distribution and that the Purchasers would apply the Distribution as consideration for their proportionate number of TWEL Shares. The Special Committee recommended that the Distribution amount be set at a premium to the Fair Market Value per Share.

Effective December 20, 2018, following review and consideration of the recommendation of the Special Committee, the Board unanimously determined that the Distribution and the Transaction are in the best interests of the Company and the Shareholders and resolved that the Distribution be set at a price per Common Share of \$0.075, with the result that (a) the Purchasers would be able to apply their Distribution Entitlements to the purchase of the TWEL Shares at \$135.92 per TWEL Share, which total amounts would equal at least the Fair Market Value for the TWEL

Interest, and (b) the Shareholders, other than the Purchasers, would receive \$1,473,783.68 in cash, representing a premium of 27% to the average Fair Market Value per Common Share for the TWEL Interest.

### **Valuation Report and Fairness Opinion**

The Valuator prepared the Valuation Report and Fairness Opinion dated December 19, 2018 to provide an independent opinion as to the valuation of the Company's TWEL Interest as at September 30 2018 and a fairness opinion in connection therewith as of December 19, 2018. Attached as Schedule C is the Valuation Report and Fairness Opinion. The Valuator has also provided its consent to the references to its name, to the Valuation Report and Fairness Opinion and its inclusion in this Circular, which consent is also attached to this Circular. **The Board recommends that Shareholders read the Valuation Report and Fairness Opinion in its entirety.**

#### *Summary*

The Valuator assessed the Fair Market Value of the TWEL Interest and the equity interest of TWEL indirectly held by the Disinterested Shareholders (which are the shareholders other than the Purchasers) to be in the range of \$3,822,000 to \$4,718,000 and \$825,319 to \$1,021,823, respectively, as at September 30, 2018. The Valuator further opined that the Distribution amount payable to the Disinterested Shareholders, which is \$1,473,783.68 (or \$0.075 on a per Common Share basis), is fair from a financial point of view to the Disinterested Shareholders of the Company as at December 19, 2018.

The full text of the Valuation Report and Fairness Opinion sets out the assumptions made, matters considered and limitations and qualifications on the review undertaken in connection with its preparation. The Valuator provided the Valuation Report and Fairness Opinion for the information and assistance of the Special Committee and the Board in connection with their consideration of the Distribution and the Transaction. The report is not a recommendation as to whether or not Shareholders should vote for or against the Distribution and Stated Capital Resolution or the Transaction Resolution. As described above, the Valuation Report and Fairness Opinion was one of many factors taken into consideration by the Board in making its determination to unanimously recommend that Shareholders vote FOR the Distribution and Stated Capital Resolution and the Transaction Resolution.

#### *Qualification and Independence*

The Company paid the Valuator a fixed fee for its services and the Valuator is not entitled to a success fee. The Special Committee determined that the Valuator is independent on the basis that the Valuator was given no financial incentives related to the closing of the Distribution or the Transaction, nor the conclusions reached in connection therewith. The Valuator was hired to report directly to the Board as a whole and not to any individual interested parties in the Transaction. The Valuator has advised the Company that it does not otherwise have any interests in the Company or the completion of the Distribution and the Transaction. Furthermore, pursuant to the Valuator's engagement agreement with the Company, the Valuator will be indemnified by the Company under certain circumstances up to the maximum amount of its fees for liabilities, other than the Valuator's negligence, arising in connection with its engagement.

### **Rationale for the Transaction**

In reaching its decision to support the Transaction and to recommend to the Shareholders to vote in favour of the Transaction Resolution, the Board consulted with its legal and financial advisors and carefully reviewed, considered and deliberated all aspects of the Transaction. The Board considered a number of factors, including those set out below, as being the most relevant to their recommendation.

The Purchasers will hold shares in an operating company that will continue to operate the same business since the Company is currently a holding company, but will not have to be subject to the financial and administrative costs of public company compliance requirements. Shareholders can benefit from the following:

- *Common Shares are thinly traded* - The Common Shares are thinly traded, making it difficult for Shareholders to sell their Common Shares efficiently through the facilities of the TSXV.

- *Cash Proceeds* - Shareholders, other than the Purchasers, will be able to receive a Distribution without having to forgo their Common Shares. The amount of the Distribution per Common Share represents a premium of approximately 28% of the 60-day volume weighted average trading price of the Common Shares prior to December 21, 2018 (being the date of announcement of the Distribution, Stated Capital Reduction and the Transaction).
- *Valuation Report and Fairness Opinion* - Based on financial advice the Board has received from the Valuator, the Board believes that amount of the Distribution represents a 27% premium to the average Fair Market Value of the TWEL Interest per Common Share. (See “*Valuation Report and Fairness Opinion*”.)
- *Decreased Administrative Expenses* - As a shell company, the Company will have minimal administrative expenses.
- *Continued Shareholder stake in the Company* - The Shareholders will continue to hold shares in a publicly listed company. The Company will continue to be a reporting issuer in British Columbia and Alberta and it is anticipated that the Common Shares will be listed on the NEX. To the extent the Company effects any material transactions at a future date, the Shareholders will get to participate in such transactions.

In addition, the Board noted the following procedural protections to Shareholders:

- *Minority Approval* - The Distribution and the Transaction will be subject to Disinterested Shareholder Approval.
- *Dissent Rights* - If the Distribution proceeds, Shareholders who are not in favour of the Transaction will have the right to dissent and demand to be paid an amount equal to the fair value of their Common Shares determined immediately prior to the passing of the Distribution and Stated Capital Resolution and the Transaction Resolution. If dissent rights are exercised, a judicial process will be used to determine the fair value required to be paid to such dissenting Shareholders if the Company and the dissenting Shareholder cannot agree on the price.

### **Canadian Securities Law Considerations**

The sale of the TWEL Shares to the Purchasers pursuant to the Transaction is exempt from the prospectus requirements of Canadian securities laws. The TWEL Shares may not be “freely tradeable”. Unless another prospectus exemption is relied upon to sell such TWEL Shares in Canada, such TWEL Shares may only be sold to a person or company outside of Canada or through an exchange or market outside of Canada. If a Shareholder relies on a prospectus exemption to sell TWEL Shares in Canada (such as a sale to an “accredited investor”) the subsequent purchaser may also be subject to the same transfer restrictions. Since TWEL does not currently contemplate listing the TWEL Shares on an exchange or market outside of Canada, Shareholders wishing to resell their TWEL Shares may likely have to make arrangements to resell such shares to a person or company outside of Canada. **Shareholders are urged to consult their legal advisors to determine the applicability to them of the resale restrictions prescribed by applicable Canadian securities laws.**

### **Regulatory Considerations**

The acceptance of the Transaction by the TSXV is required prior to completing the Transaction because it constitutes a “Reviewable Transaction” under TSXV policies. The Company has received conditional acceptance from the TSXV subject to satisfaction of certain customary conditions. TSXV acceptance, whether conditional or final, should not be interpreted to mean that the TSXV has in any way passed on the merits of the Transaction. The Company anticipates listing the Common Shares on the NEX after the closing of the Transaction.

## **Rights of Dissent**

The Company is subject to the provisions of the BCBCA. Under Sections 301 and 238 of the BCBCA any Shareholder has the right or may be deemed to have the right to dissent from the Transaction Resolution and, if such Shareholder dissents in such manner as provided in the BCBCA, such Shareholder is entitled to be paid an amount equal to the fair value of his or her Common Shares determined immediately before the passing of such resolution. Any Shareholder who wishes to dissent must provide the Company with a written notice of dissent at least two days before the date on which the Transaction Resolution is to be passed. A notice of dissent must set out the number of Common Shares in respect of which he or she dissents and (a) if such Common Shares constitute all of the Common Shares of which the Shareholder is both the registered owner and beneficial owner and the Shareholder owns no other Common Shares as beneficial owner, a statement to that effect; or (b) if such shares constitute all of the Common Shares of which the Shareholder is both the registered owner and beneficial owner but the Shareholder owns other Common Shares as beneficial owner, a statement to that effect and (i) the names of the registered owner of those other Common Shares, (ii) the number of other Common Shares that are held by each of those registered owners, and (iii) a statement that notices of dissent are being, or have been sent in respect of all of those other Common Shares; or (c) if dissent is being exercised by the Shareholder on behalf of a beneficial owner who is not the dissenting Shareholder, a statement to that effect and (i) the name and address of the beneficial owner and (ii) a statement that the Shareholder is dissenting in relation to all of the Common Shares beneficially owned by the beneficial owner that are registered in the Shareholder's name.

In accordance with the BCBCA, the Company shall then send a notice to the dissenter (as defined in the BCBCA) stating that the Company has acted, or intends to act (as the case may be) on the authority of the Transaction Resolution and advise the dissenter of the manner in which his or her dissent is to be completed under section 244 of the BCBCA. A dissenter who receives such a notice from the Company and wishes to proceed with the dissent is required within one month after the date of such notice from the Company to send to the Company or its transfer agent (a) a written statement that the dissenter requires the Company to purchase all the Common Shares in respect of which he or she dissents, (b) the certificates, if any, representing the Common Shares in respect of which he or she dissents, and (c) if such dissent is being exercised by the Shareholder on behalf of a beneficial owner who is not the dissenting Shareholder, a written statement (i) that is signed by the beneficial owner on whose behalf dissent is being exercised, and (ii) setting out whether or not the beneficial owner is the beneficial owner of other Common Shares and if so the names of the registered owners of those other Common Shares, the number of those other Common Shares that are held by each of those registered owners, and that dissent is being exercised in respect of all of those other Common Shares.

Persons who are beneficial owners of Common Shares registered in the name of a broker, custodian, nominee or other intermediary who wish to dissent should be aware that only registered Shareholders are entitled to dissent. Accordingly, a beneficial owner of Common Shares desiring to exercise the right to dissent must contact such intermediary to make arrangements for the Common Shares beneficially owned by such holder to be registered in the holder's name prior to the time the written objection to the Transaction Resolution is required to be received or, alternatively, make arrangements for the registered holder of such Common Shares to dissent on behalf of the holder.

The foregoing is only a summary of the provisions affording dissent rights to Shareholders under the BCBCA. For full details as to the manner in which the right of dissent is to be implemented, Sections 238, 301, and 237 to 247 (inclusive) of the BCBCA should be consulted. It is strongly recommended that Shareholders who wish to pursue rights of dissent consult their own legal advisors with respect to the relevant statutory provisions and the procedures to be followed as failure to comply strictly with the relevant procedures of the BCBCA may result in the loss of dissent rights. Shareholders should note that the exercise of dissent rights can be a complex, time consuming and expensive process. The full text of Sections 237 to 247 of the BCBCA is included in Schedule D to this Circular.

If a Shareholder that exercises his or her dissent rights is ultimately entitled to be paid an amount equal to the fair value of his or her Common Shares determined immediately before the passing of the Transaction Resolution, such Shareholder may enter into an agreement with the Company for the fair value of his or her Common Shares. If such Shareholder does not reach an agreement with the Company, such Shareholder or the Company, may apply to the Court, and the Court may determine the payout value of the Common Shares subject to the exercise of dissent rights and make consequential orders and give directions as the Court considers appropriate. There is no obligation on the

Company to make application to the Court. The Shareholder that exercises his or her dissent rights will be entitled to receive the fair value that the Common Shares had immediately before the approval of the Transaction Resolution, excluding any appreciation or depreciation in anticipation of the vote (unless such exclusion would be inequitable). After a determination of the fair value of such Common Shares, the Company must then promptly pay that amount to the Dissenting Securityholder.

A Shareholder's right to receive fair value for his or her Common Shares will terminate and cease to apply if, before full payment is made for such Common Shares, the Transaction is abandoned or by its terms will not proceed, a court permanently enjoins or sets aside the corporate action approved by the Transaction Resolution, or such Shareholder withdraws his or her notice of dissent with the Company's written consent. If any of these events occur, the Company must return any certificates representing the Common Shares delivered to the Company by such Shareholder and he or she shall regain the ability to vote and exercise rights as a Shareholder and the shareholder must return any money paid for such Common Share in connection herewith.

**If you dissent, there can be no assurance that the amount you receive as fair value for your Common Shares will be more than or equal to the consideration you are eligible to receive under the Transaction.**

**A Shareholder who wishes to dissent must deliver the dissent notice to the head office of the Company, at 160 - 170 - 6751 Graybar Road, Richmond, British Columbia, V6W 1H3, Attention: Thurman So, no later than 8:30 a.m. (Toronto time) on the business day that is two business days immediately preceding the Meeting (being January 22, 2019) or any adjournments or postponements thereof.**

#### **Approval of the Transaction Resolution**

At the Meeting, Shareholders will be asked to consider and, if thought advisable, approve, with or without variation, the Transaction Resolution.

As set forth under "*Related Party Transaction Disclosure*", below, the Transaction is also subject to Disinterested Shareholder Approval.

The text of the Transaction Resolution shall be substantially as follows:

#### **"BE IT RESOLVED, AS A SPECIAL RESOLUTION, THAT:**

1. The sale by the Company of all of the outstanding shares in the capital of Total Wonder Enterprises Limited pursuant to the share purchase agreement(s), between the Company and each of the Purchasers (as defined in the Circular), as described in the Circular, and the Company's performance of its obligations thereunder are hereby approved.
2. Any officer or director of the Company is hereby authorized and directed for and on behalf of the Company to execute or cause to be executed, under the seal of the Company or otherwise, and to deliver or cause to be delivered all such documents, agreements and instruments, and to perform or cause to be performed all such acts and things as such officer or director shall determine to be necessary or desirable to give full effect to this special resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of such documents, agreements or instruments or the performing or causing to be performed of such other acts or things.
3. Notwithstanding that this special resolution has been duly passed by the holders of Common Shares, the Board, in its sole and absolute discretion, may defer acting on this special resolution or revoke this special resolution at any time before it is acted upon without further approval, ratification or confirmation by or prior notice to the holders of Common Shares."

The Board passed a resolution effective December 21, 2018, to approve the Distribution and the Transaction. All directors voted in favour of this resolution except for Yuxiu Zhao and Pennie Zong, who declared their interests as Purchasers in the Transaction, in compliance with applicable corporate law, and recused themselves from voting.

To be approved, the Transaction Resolution requires (a) a special majority of not less than two thirds of the votes of Shareholders cast at the Meeting in person or by proxy in favour of the Transaction Resolution, and (b) Disinterested Shareholder Approval.

If, and only if, the Distribution and Stated Capital Resolution is approved by the holders of Common Shares at the Meeting, Shareholders will be asked to approve the Transaction Resolution.

**The Board has concluded that the Distribution and the Transaction are in the best interests of the Company and the Shareholders. Accordingly, the Board recommends that the Shareholders vote IN FAVOUR of the Transaction Resolution. It is the intention of the persons named in the enclosed Form of Proxy, if not expressly directed to the contrary in such Form of Proxy, to vote the proxy IN FAVOUR of the Transaction Resolution at the Meeting.**

Notwithstanding approval of the Transaction Resolution by the Shareholders, the Board, in its sole discretion, may determine not to proceed with the Distribution without further approval or action by or prior notice to Shareholders, in which case, the Board will revoke the Distribution and Stated Capital Resolution if it is approved at the Meeting.

#### MARKET FOR SECURITIES

The Common Shares are listed and posted for trading on the TSXV under the symbol “AAP”. The following table sets forth the high and low trading prices and the aggregate volume of Common Shares traded on the TSXV for the periods indicated (as reported by the TSXV).

Month	High (\$)	Low (\$)	Volume
<b>2018</b>			
June	0.085	0.085	25,000
July	0.055	0.055	3,000
August	N/A	N/A	0
September	N/A	N/A	0
October	0.06	0.06	5,000
November	0.06	0.06	14,500
December 1-20	N/A	N/A	0

#### RELATED PARTY TRANSACTION DISCLOSURE

Since the Company is a reporting issuer in the provinces of British Columbia and Alberta and the Common Shares are listed on the TSXV, it is also subject to MI 61-101 as well as TSXV rules, which impose various requirements on issuers that intend to effect certain types of non-arm’s length transactions including related party transactions. These requirements include enhanced disclosure to the public and Shareholders, the requirement in certain circumstances to prepare and summarize the results of a formal valuation of the subject matter of the transaction and the requirement in certain circumstances to have the transaction approved by a simple majority of disinterested Shareholders.

## **Distribution and Transaction**

In addition to Ms. Zhao, certain Purchasers are also related parties of the Company: (a) CN Lifestyle Limited and Peter Kai-Sing So are related parties as they each own more than 10% of the Common Shares of the Company; and (b) Belva Global Company Limited is wholly owned by Pennie Baihan Zong, a director of the Company. There is an exemption available from the valuation requirements of MI 61-101 since the Common Shares are listed on the TSXV and not on the specified markets set forth in MI 61-101. In any event, the Company has obtained the Valuation Report and Fairness Opinion as described under “1. *The Transaction - Valuation and Fairness Opinion*”, above. Furthermore, in accordance with the rules of the TSXV and MI 61-101, the Company will seek Disinterested Shareholder Approval for the Distribution and the Transaction. To the knowledge of the Company, after reasonable inquiry, an aggregate of 52,426,624 Common Shares, being the Purchasers’ Common Shares, will be excluded for purposes of determining Disinterested Shareholder Approval. See “*Approval of the Distribution and Stated Capital Resolution*” and “*Approval of the Transaction Resolution*”.

## **AUDITOR**

The auditors of the Company are Deloitte Touche Tohmatsu Limited, who have been auditors of the Company since June 26, 2015.

## **INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

No current or former director, executive officer or employee is indebted to the Company or any of its subsidiaries, nor are any of such persons indebted to another entity that is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or any of its subsidiaries.

None of the directors or executive officers of the Company nor any proposed nominee for election as a director of the Company, nor any associate of any one of them is or, at any time since the beginning of the most recently completed financial year, has been indebted to the Company or any of its subsidiaries. None of such persons are indebted to another entity that is, or at any time since the beginning of the most recently completed financial year, has been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or any of its subsidiaries.

## **INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON**

Except as disclosed herein, the Company is not aware of any of the directors, nominees, officers or other insiders of the Company or any associate or affiliate of any of these persons, having any material interest in the matters to be acted upon at the Meeting, by way of beneficial ownership of securities or otherwise.

The Company’s indirect subsidiary, Merit Sign Investments Limited (“**Merit Sign**”) is party to a loan arrangement with Messrs. Hok-Shan Chong, Mr. Hot-Hoi Chong and Mr. Hok-Hei Chong pursuant to which such individuals have collectively advanced the principal amount of HKD 12,000,0000 (approximately C\$2,052,064). The loan bears interest at the HSBC Bank prime rate and matures on December 31, 2019. Messrs. Hot-Hoi Chong and Hok-Hei Chong beneficially own or control the issued and outstanding shares of CN Lifestyle Limited, an insider of the Company.

## **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

To the best of the Company’s knowledge, except as disclosed herein, since the commencement of the Company’s most recently completed financial year, no informed person of the Company, proposed nominee for director or any associate or affiliate of an informed person or proposed nominee, had any material interest, direct or indirect, in any transaction or any proposed transaction which has materially affected or would materially affect the Company or any of its subsidiaries. For the purposes of this Circular, an “informed person” of the Company means: (a) a director or executive officer of the Company; (b) a director or executive officer of a person or Company that is itself an informed person or subsidiary of the Company; (c) any person or company who beneficially owns, directly or indirectly, voting securities of the Company or who exercises control or direction over voting securities of the

Company or a combination of both carrying more than 10% of the voting rights other than voting securities held by the person or Company as underwriter in the course of a distribution; and (d) the Company itself, if and for so long as it has purchased, redeemed or otherwise acquired any of its Common Shares.

#### **OTHER BUSINESS**

Management is not aware of any matters to come before the Meeting other than those set forth in this Circular. If any other matter properly comes before the Meeting, the persons named in the Form of Proxy will vote the Common Shares represented thereby in accordance with their best judgment on such matter.

#### **ADDITIONAL INFORMATION**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Financial information relating to the Company is provided in the Company's audited consolidated financial statements for the financial year ended December 31, 2017 and the Company's interim consolidated financial statements for the three months ended March 31, 2018 (unaudited) and nine months ended September 30, 2018 (unaudited), and the related annual and interim management's discussion and analysis ("MD&A"). Shareholders who wish to obtain a copy of the financial statements and MD&A of the Company may contact the Company as follows:

By phone:	604-999-8253
By e-mail:	<a href="mailto:info@alphapeak.ca">info@alphapeak.ca</a>
By mail:	<b>ALPHA PEAK LEISURE INC.</b> 160-170 6751 Graybar Road Richmond, BC V6W 1H3

**BOARD APPROVAL**

The Board has approved the content and distribution of this Circular.

**BY ORDER OF THE BOARD OF DIRECTORS**

*(signed) Yuxiu Zhao* \_\_\_\_\_

Yuziu Zhao

Chairperson and Acting Chief Executive Officer

December 21, 2018

**CONSENT OF HONG KONG APPRAISAL ADVISORY LIMITED**

**To: The Board of Directors of Alpha Peak Leisure Inc. (the “Company”)**

We have read the management information circular of the Company dated December 21, 2018 (the “**Circular**”). We hereby consent to the references to our firm name, to our valuation report and fairness opinion dated December 19, 2018 (the “**Valuation Report and Fairness Opinion**”) and to the inclusion of the text of the Valuation Report and Fairness Opinion attached as Schedule C to the Circular. We consent to the filing of the Valuation Report and Fairness Opinion with the applicable securities regulatory authorities and we have no reason to believe that there are any misrepresentations in the information contained in the Circular that are derived from the Valuation Report and Fairness Opinion, or within our knowledge as a result of the services we have performed in connection with the Valuation Report and Fairness Opinion.

Yours faithfully  
For and on behalf of:

**Hong Kong Appraisal Advisory Limited**

(signed) “*Jacqueline W. Huang*”

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Jacqueline W. Huang, Ph.D, HKSFA, ASA  
Managing Director

December 21, 2018

## SCHEDULE A

### CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

*(Capitalized terms not defined herein have the means ascribed thereto in the management information circular (the "Circular") of Alpha Peak Leisure Inc. (the "Company") to which this Schedule is attached.)*

#### **Certain Canadian Federal Income Tax Considerations**

The following summary, as at the date of the Circular, fairly presents the principal Canadian federal income tax considerations with respect to the cash Distribution (the "**Cash Distribution**") generally applicable to holders of Common Shares ("**Common Shareholders**") who, for the purposes of the *Income Tax Act* (Canada) (the "**Tax Act**") and at all relevant times, deal at arm's length with and are not affiliated with the Company and hold their Common Shares as capital property.

The Common Shares will constitute capital property to a Common Shareholder unless any such shares are held in the course of carrying on a business of trading or dealing in shares or otherwise as part of a business of buying and selling securities, or such Common Shareholder has acquired such shares in a transaction or transactions considered to be an adventure or concern in the nature of trade. Certain Common Shareholders who are resident in Canada for the purposes of the Tax Act whose Common Shares might not otherwise qualify as capital property may be entitled to make an irrevocable election in accordance with subsection 39(4) of the Tax Act to have such shares, and any other "Canadian security" (as defined in the Tax Act) owned in the taxation year of the election and all subsequent taxation years, deemed to be capital property. Common Shareholders contemplating making such an election should first consult their own tax advisors as such an election will affect the tax treatment of other Canadian securities held. Common Shareholders who do not hold their Common Shares as capital property should consult their own tax advisors regarding their particular circumstances.

This summary does not apply to a Common Shareholder (i) that is a "financial institution" as defined in the Tax Act for purposes of the "mark-to-market" rules, (ii) that is a "specified financial institution" as defined in the Tax Act, (iii) an interest in which would be a "tax shelter investment" as defined in the Tax Act, (iv) that makes the functional currency reporting election in accordance with the provisions of the Tax Act in that regard, (v) is a "foreign affiliate", as defined in the Tax Act, of a taxpayer resident in Canada, or (vi) who has entered or will enter into a "derivative forward agreement" as that term is defined in the Tax Act with respect to the Common Shares.

This summary is based on the enacted provisions of the Tax Act and the regulations thereunder in force as at the date hereof, specific proposals to amend the Tax Act and the regulations thereunder that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Tax Proposals**") and the Company's understanding of the current published administrative practices and assessing policies of Canada Revenue Agency ("**CRA**"). This summary assumes that all of the Tax Proposals will be implemented in the form proposed, although no assurances can be given in this regard. This summary does not take into account or anticipate any changes in the law, whether by legislative, regulatory, administrative or judicial action, nor does it take into account other federal tax legislation or provincial, territorial or foreign tax considerations, which may differ significantly from the Canadian federal income tax considerations described in this summary. No advance income tax ruling has been sought or obtained from CRA to confirm the tax consequences of the return of capital to Common Shareholders.

This summary does not address provincial tax matters or tax matters of any jurisdiction outside of Canada. Common Shareholders who may be subject to tax in a foreign jurisdiction should consult their own tax advisors with respect to tax matters in that jurisdiction.

**This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to the Cash Distribution. This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal, business or tax advice to any particular Common Shareholder. No representations with respect to any tax consequences and considerations to any particular Common Shareholder are made.**

**This summary is not exhaustive of all Canadian federal income tax considerations. The tax consequences and considerations to any particular Common Shareholder will depend on a variety of factors, including the Common Shareholder's own particular circumstances. Common Shareholders should consult their own tax advisor regarding the tax consequences and considerations applicable to them on the Cash Distribution.**

### **Tax Proposal Regarding Return of Capital by Public Corporations**

Management has advised that the anticipated "paid-up capital" (as defined in the Tax Act) of the Common Shares as at the Cash Distribution Date will be not less than \$1.00 per Common Share. Accordingly, this summary is based upon the assumption that the amount that will be paid by the Company to the Common Shareholders on the Cash Distribution will not exceed the paid-up capital for the purposes of the Tax Act of the Common Shares, and further that such amount will not be deemed to be a dividend for the purposes of the Tax Act.

Pursuant to subsection 84(4.1) of the Tax Act, capital distributions made by corporations that are "public corporations" for purposes of the Tax Act are generally characterized as taxable dividends (as defined in the Tax Act) unless a specific exemption applies.

Subsection 84(2) of the Tax Act provides, in effect, that a distribution made to shareholders on a reorganization of a company's business will not be taxed as a dividend so long as the amount or value of the funds or property distributed does not exceed the amount by which the paid-up capital of the relevant shares is reduced on the distribution.

The Company is of the view that it is likely that the Cash Distribution is being made on the reorganization of the business of the Company and accordingly the Cash Distribution should not be taxed as a dividend since it will not exceed the paid up capital of the Common Shares.

Moreover, paragraphs 84(4.1)(a) and (b) of the Tax Act also provide that the Cash Distribution will not be taxed as a dividend provided that: (i) the Cash Distribution can reasonably be considered to have been derived from proceeds of disposition realized by the Company from a transaction that occurred outside the ordinary course of the business of the Company and during the period that commenced 24 months before the Cash Distribution; and (ii) no other amount that may reasonably be considered to have been derived from such proceeds was paid by the Company as a reduction of paid-up capital prior to the Cash Distribution. Since the TWEL Shares are being disposed of outside of the ordinary course of the Company's business and such disposition will occur prior to the Cash Distribution and within 24 months of the date of the Cash Distribution, and since there will be only one Cash Distribution, paragraphs 84(4.1)(a) and (b) of the Tax Act should also ensure that the Cash Distribution will not be taxed as a dividend for the purposes of the Tax Act.

If the Cash Distribution was deemed to be a dividend pursuant to the Tax Act, the provisions of the Tax Act regarding taxable dividends from taxable Canadian corporations would apply and the summary below would not be applicable.

### **Resident Shareholders**

This portion of the summary is applicable to Common Shareholders who, at all relevant times and for the purposes of the Tax Act, are or are deemed to be residents of Canada (each, a "**Resident Shareholder**").

The amount received by a Resident Shareholder on the Cash Distribution must be deducted in computing the adjusted cost base to a Resident Shareholder of such Resident Shareholder's Common Shares, except to the extent the distribution is deemed to be a dividend. If the amount so required to be deducted from the adjusted cost base of Common Shares to a particular Resident Shareholder exceeds the adjusted cost base of such Common Shares to such Resident Shareholder immediately before such deduction, the excess will be deemed to be a capital gain of such Resident Shareholder from a disposition of such Common Shares.

Where the adjusted cost base of Common Shares to a Resident Shareholder is greater than the Cash Distribution on such Common Shares, the Resident Shareholder will not realize a capital gain or capital loss as a result of the distribution. However, the adjusted cost base of such Resident Shareholder's Common Shares must be reduced by the amount of the return of capital on such Common Shares.

A capital gain realized by a Resident Shareholder who is an individual may give rise to a liability for minimum tax.

A Resident Shareholder that is throughout the year a "Canadian-controlled private corporation", as defined in the Tax Act, may be liable to pay an additional refundable tax on certain investment income, including taxable capital gains, interest and certain dividends. Capital gains realized by a Resident Shareholder who is an individual or a trust, other than certain specified trusts, will be taken into account in determining liability for alternative minimum tax under the Tax Act.

### **Non-Resident shareholders**

This portion of the summary is applicable to Common Shareholders who, at all relevant times and for the purposes of the Tax Act, are not and are not deemed to be residents of Canada (each, a "**Non-Resident Shareholder**").

The amount received by a Non-Resident Shareholder on the Cash Distribution must be deducted in computing the adjusted cost base to a Non-Resident Shareholder of such Non-Resident Shareholder's Common Shares. If the amount so required to be deducted from the adjusted cost base of Common Shares to a particular Non-Resident Shareholder exceeds the adjusted cost base of such Common Shares to such Non-Resident Shareholder immediately before such deduction, the excess will be deemed to be a capital gain of such Non-Resident Shareholder from a disposition of such Common Shares.

A Non-Resident Shareholder should not be subject to Canadian income tax under the Tax Act on any capital gain realized on any deemed disposition of Common Shares that results from the Cash Distribution unless such Common Shares constitute "taxable Canadian property" (as defined by the Tax Act) to the Non-Resident Shareholder.

The Common Shares generally will not constitute "taxable Canadian property" to a Non-Resident Shareholder unless, among other considerations, at any time during the 60-month period that ends at the time of the Cash Distribution, more than 50% of the fair market value of the Common Shares was attributable to real or immovable property situated in Canada, Canadian resource properties or timber resource properties (or options, interests or rights in any of the foregoing). Moreover, Common Shares could generally only be taxable Canadian property to a particular Non-Resident Shareholder if that Non-Resident Shareholder, together with non-arm's length persons, held 25% or more of the shares of any class of the Company at any time during the 60-month period that ends at the time of the Cash Distribution. Common Shares may also be deemed to constitute taxable Canadian property to a Non-Resident Shareholder in certain specific circumstances specified under the Tax Act. Where Common Shares represent taxable Canadian property to a Non-Resident Shareholder, any capital gains realized on any deemed disposition of the Common Shares resulting from the Cash Distribution will be subject to taxation in Canada, except as otherwise provided in any tax treaty between Canada and the country in which the Non-Resident Shareholder is resident for the purposes of such treaty.

Non-Resident Shareholders whose Common Shares are or may be taxable Canadian property should consult their own tax advisors regarding the tax consequences and considerations applicable to them of the Cash Distribution.

## SCHEDULE B

### INFORMATION CONCERNING TOTAL WONDER ENTERPRISES LIMITED

*(Capitalized terms not defined herein have the means ascribed thereto in the management information circular (the “Circular”) of Alpha Peak Leisure Inc. (the “Company”) to which this Schedule is attached. Unless the context otherwise requires, “TWEL” refers to TWEL and its subsidiaries.)*

#### No Market for TWEL Shares

Total Wonder Enterprises Limited (“TWEL”) is a private company. **There is no market through which the TWEL Shares may be sold and holders of TWEL Shares may not be able to resell their TWEL Shares. This may affect the pricing of the TWEL Shares, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. See attached Appendix 2 to this Schedule B - “Risk Factors”.** As of the date hereof, TWEL does not intend to list any of its securities on any stock market or marketplace in or outside of Canada.

#### Corporate Structure

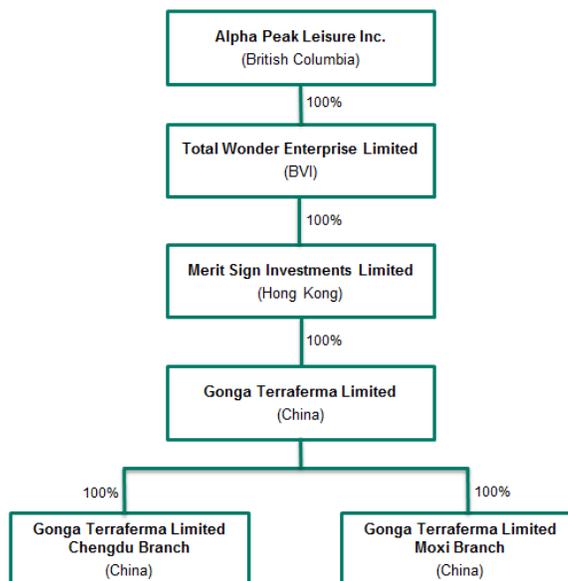
TWEL was incorporated pursuant to the BVI Business Companies Act, 2004 of the British Virgin Islands on November 21, 2013. TWEL’s head office is located at Flat C, 13/F., Lippo Leighton Tower, No. 103 Leighton Road, Causeway Bay, Hong Kong and its registered office is located at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, British Virgin Islands VG1110. Other than serving as a holding company for all the issued and outstanding share capital of Merit Sign Investments Limited (“**Merit Sign**”), a company incorporated under the laws of Hong Kong, TWEL does not carry on any active business.

Merit Sign was incorporated pursuant to the *Companies Ordinance* (Chapter 32) of Hong Kong SAR, People’s Republic of China on January 11, 2005. Merit Sign was the founding investor of Gongga Terraferma Limited (“**GTL**”) and has held all of the issued and outstanding share capital of GTL since inception of GTL in June 28, 2005. In addition to being the sole owner of all of the issued and outstanding share capital of GTL, Merit Sign has engaged consultants to assist GTL in relation to the operation, pricing and marketing strategy for Swallows’ Gully Scenic Area (“**Swallows’ Gully**”).

GTL was incorporated under the laws of the PRC on June 28, 2005 as an enterprise with investment of Taiwan, Hong Kong, Macao and PRC, which is a category of wholly foreign-owned entities (“**WFOE**”). GTL set up the GTL Chengdu Branch in Chengdu, Sichuan, PRC on May 8, 2007 and set up the GTL Moxi Branch in the Town of Moxi, Luding County, Sichuan, PRC on January 7, 2010. The reason for establishing the GTL Chengdu Branch is that many local management personnel of GTL reside in Chengdu; and the reason for establishing the GTL Moxi Branch is that the local management office of GTL is located in Moxi and the GTL Moxi Branch is tasked with carrying out the daily operation of Swallows’ Gully with a focus on providing support and logistics.

The Company was incorporated on June 24, 2011 under the British Columbia *Business Corporations Act* and commenced trading on the TSX Venture Exchange (the “**TSXV**”) as a Capital Pool Company pursuant to TSXV Exchange Policy 2.4 in January 2013. The address of the Company’s registered office is 160-170-6751 Graybar Road, Richmond, British Columbia V6W 1H3, Canada. On June 23, 2015, the Company completed a qualifying transaction (“**Qualifying Transaction**”) pursuant to the policies of the TSXV through a private placement financing and an amalgamation with 1016772 B.C. Ltd (“**6772BC**”), a private limited company incorporated under the *Business Corporations Act* (British Columbia) and which, at that time, held all the issued and outstanding shares of TWEL. In connection with the closing of the Qualifying Transaction, 6772BC amalgamated with the Company to continue as an amalgamated company which continues in the name of the Company.

The following chart illustrates the corporate structure of TWEL prior to the Transaction:



### General Description of Business of TWEL

TWEL, through GTL, is principally engaged in the development and operation of Swallows’ Gully. Gonga has a 40-year (ending in 2046) exclusive operation and development right with the Hailuo Valley Scenic Area Administration (“**Hailuo Valley Administration**”) for Swallows’ Gully, a national scenic location and large scale tourist attraction site in Sichuan Province, the People’s Republic of China (the “**PRC**”) encompassing an area of approximately 593 km<sup>2</sup> in close proximity to Hailuoguo National Forest park within the Ganzi Tibetan Autonomous Prefecture in Sichuan, China.

Pursuant to the framework agreement between GTL and Hailuo Valley Administration dated December 8, 2006 (the “**Framework Agreement**”) and the joint development agreement between GTL and Hailuo Valley Administration dated October 25, 2007 as authorized by the People’s Government of Ganzi Prefecture in its response on the matters regarding the joint development of Swallows’ Gully (the “**Joint Development Agreement**”), TWEL, through GTL, holds an exclusive right for 40 years (ending in 2046) to operate and develop Swallows’ Gully jointly with Hailuo Valley Administration.

The Joint Development Agreement provides that 80% of the after-tax admission ticket revenues generated from Swallows’ Gully payable to GTL are to serve as compensation for GTL’s funding for the construction of basic infrastructures, such as roads, water, electricity and sewage (“**Basic Infrastructure Facilities**”). Admission ticket revenues are revenues generated from sales of admission tickets to the Swallows’ Gully park area in general and must be shared with the government. All of the sales proceeds from other tickets to the attractions and other operational facilities and projects (such as sightseeing vehicles, cable cars, observation decks and camping sites) built by GTL belong to GTL. The duration of this compensation arrangement is limited to the duration of the parties’ cooperation in the development of Swallows’ Gully. Upon completion of the compensation arrangement, the ownership of admission ticket revenues from Swallows’ Gully and Basic Infrastructure Facilities within Swallows’ Gully shall vest in Hailuo Valley Administration. In the earlier Framework Agreement, the maximum amount of this compensation arrangement was limited to the amount of GTL’s accumulated investment in the infrastructure plus a return at the annual rate of 15%. The reference to this maximum limit of GTL’s compensation based on its accumulated investment in the infrastructure plus a return at the annual rate of 15% has been removed in the Joint Development Agreement. GTL also received a written statement from Hailuo Valley Administration stating that

GTL's share of the 80% of the after-tax admission ticket revenues generated from Swallows' Gully will continue for the 40-year term (ending in 2046) of the parties' cooperation in the development of Swallows' Gully.

However, because the Joint Development Agreement changed the method of cooperation with Hailuo Valley Administration, it is unclear to what extent the Joint Development Agreement overrides the Framework Agreement, and whether any government approval from a higher authority should be obtained for the change of method of cooperation in the Joint Development Agreement. (See Appendix 2 to this Schedule B - "*Risk Factors*".)

Also, the State Forestry Administration of the PRC granted the right to administer the geological tourism activities of Swallows' Gully to the Gongga Mountain National Nature Reserve Administration, in its approval letter to the Sichuan Provincial Bureau of Forestry dated September 10, 2010 regarding the overall planning of Swallows' Gully scenic area of the Gongga Mountain National Nature Reserve. As a result, there are uncertainties and overlap concerning the administrative authority of Swallows' Gully between Hailuo Valley Administration and the Gongga Mountain National Nature Reserve Administration. Therefore, the legality, validity or enforceability of the Joint Development Agreement may still be subject to potential legal challenges. (See Appendix 2 to this Schedule B - "*Risk Factors*".)

Pursuant to the Joint Development Agreement, because the Basic Infrastructure Facilities will be vested in Hailuo Valley Administration after the term of the Joint Development Agreement expires, Hailuo Valley Administration is the responsible party to obtain the required permits and approvals from the relevant PRC government authorities for the use of these Basic Infrastructure Facilities, as confirmed in its written statement to GTL on October 16, 2014. As at the date of the Circular, some or all of the required permits and approvals from the relevant PRC government authorities for the Basic Infrastructure Facilities are still pending. If GTL fails to cause Hailuo Valley Administration to apply and obtain the necessary government approvals or permits, other competent PRC governmental authorities may subsequently order GTL to, among other things, vacate the premises, demolish or restore the premises to their original state within a limited time, and pay certain fines.

GTL's primary operations are currently focusing on the operations of the scenic areas of Swallows' Gully. Even though GTL had started an initial pilot operation of Swallows' Gully in 2009, the Swallows' Gully scenic tourism area officially commenced full operation in 2013. Pursuant to the Joint Development Agreement, GTL has completed construction of and put into use certain Basic Infrastructure Facilities in Swallows' Gully such as a road project, a tourist centre project and a service office project. GTL has been using the service office building as a dining area for visitors. GTL also rebuilt a Tibetan culture and religious customs exhibition centre based on an earlier existing building structure within Swallows' Gully. In addition to Basic Infrastructure Facilities, GTL has also built and set up numerous attractions and activities in Swallows' Gully to attract visitors, including:

<u>Attraction</u>	<u>Status</u>
• Bubble Tent Camp Ground	Open to visitors
• All-Terrain Vehicle Challenge Course	Open to visitors
• Bos Grunniens (Tibetan bulls) Farm	Open to visitors
• Enlightenment Ladder to the Mandala Limbo	Open to visitors
• Tour buses for traveling within Swallows' Gully and others (collectively, the " <b>Attractions</b> ")	Available to visitors

GTL charges visitors fees in addition to the admission ticket fees for taking part in the Attractions. Since the pilot operation of Swallows' Gully, GTL has generated revenues from its share of the sale of general admission tickets to visit Swallows' Gully and sales of tickets to some of the Attractions that GTL had built. Visits to Swallows' Gully typically peak from mid - March through mid-October.

Under the Framework Agreement and the Joint Development Agreement, which provide the revenue sharing on admission tickets revenues, GTL retains 80% of admission ticket revenue, while Hailuo Valley Administration is entitled to the remaining 20%. Currently (as set in 2018), the price of one admission ticket to Swallows' Gully is RMB 120. According to applicable PRC law, the price of the admission ticket to visit Swallows' Gully shall be

determined by Ganzi DRC. The ticket price may be adjusted by Ganzi DRC not more than one time within a period of three years and the adjustment can only be made within the permitted range set forth below:

Price before adjustment (based on business season)	Range of adjustment
Less than RMB50	≤35%
RMB50 or above but less than RMB100	≤30%
RMB100 or above but less than RMB200	≤25%
RMB200 or above	≤15%

Under applicable PRC law, Hailuo Valley Administration is responsible for collecting all the fees from the sale of admission tickets to visit Swallows' Gully and may then allocate part of the fees to GTL according to the parties' agreement on revenue allocation. In actual operations, GTL is currently collecting all the admission ticket fees directly as authorized by Hailuo Valley Administration. Although applicable laws do not specifically provide for penalties for this violation, the higher governmental authority may request correction of this practice, which may affect GTL's short-term cash-flow position.

#### *Employees*

As at December 31, 2017, TWEL had 88 full-time employees (and 72 as of the date hereof due to the seasonality of the business) to carry out various functions, including administrative, marketing, operational and management. GTL also hires temporary employees from time to time to provide cleaning services at Swallows' Gully.

#### *Disaster Risk Management*

GTL has established a mechanism for disaster risk management to strengthen its capacities to monitor, mitigate, respond to and manage natural hazards.

A round-the-clock video monitoring system is in place in Swallows' Gully for timely detection of natural disasters. Patrol guards are equipped with wireless transceivers to report emergencies in a timely manner. Inspections of areas susceptible to potential natural hazards are carried out regularly, and should it be necessary, reinforcement or enhancement projects on such areas will be undertaken.

Precautionary and contingency measures have been adopted to cope with natural hazards. Damage or disruptions caused by natural hazards are categorized into different levels according to severity. Depending on the course of development of a disaster, corresponding procedures will be carried out. Once an emergency is identified, on-site staff will report to their supervisor immediately and evacuate the site; additional resources will be mobilized where necessary.

#### *PRC Laws and Regulation*

GTL operates in the scenic tourism industry in China, which industry is regulated by a number of PRC government agencies and is subject to a wide variety of PRC laws and regulations.

Due to the increasing number of national and regional government policies in the PRC, new laws and regulations may be adopted from time to time to address new issues. Furthermore, there are several levels of laws, regulations, rules and standards in the PRC in connection with the tourism industry, issued at both national and local government levels. There are also overlaps of administrative functions among different government agencies. As a result, substantial uncertainties exist regarding the interpretation and implementation of current and future PRC laws and regulations applicable to the tourism industry.

As a general view, GTL's business activities in the tourism industry will be affected by the PRC tourism law and all of the ancillary laws and regulations promulgated thereunder. Furthermore, because Swallows' Gully is a designated scenic tourism area, any development or operation of Swallows' Gully as a designated scenic tourism area is subject to PRC laws and regulations targeting regulation of scenic tourism areas, administered generally by the Ministry of Housing and Urban-Rural Development of PRC, and locally by Hailuo Valley Administration. Because Swallows' Gully also falls geographically within the Gongga Mountain National Nature Reserve, a national nature reserve area, any development and operation in Swallows' Gully is also subject to PRC regulations targeting nature reserve areas. However, the current PRC laws and regulations do not provide clear guidelines on the implementation of potential overlapping administrations by different governmental authorities.

### *Proprietary Protection*

In connection with the operation and development of Swallows' Gully, TWEL and its subsidiaries have attempted to build brand recognition among potential tourists and consumers for Swallows' Gully as a scenic tourism destination, and for services and merchandise to be sold by GTL in Swallows' Gully. GTL has registered several trademarks in China and applied and received several design patents.

### **Recent Developments**

In connection with the change to the Company's management team beginning in the third quarter of 2017, the Company decided to reposition the business focus and modify its revenue streams. This included suspending the cableway project and certain programs offered to visitors.

During the financial year ended December 31, 2017, TWEL incurred a loss before tax of approximately \$29.4 million. Such loss resulted from: (i) the recognition of an impairment loss in respect of property, plant and equipment of approximately \$10.1 million and intangible assets arising from a service concession arrangement of GTL due to unfavourable performance of GTL of approximately \$7.7 million; and (ii) a write-off of property, plant and equipment of approximately \$7.5 million. The impairment loss was a non-cash item with no adverse impact on TWEL's cash flows.

Despite the occurrence of an impairment loss, the overall visitors to Swallows' Gully increased from 64,597 in 2016 to 102,003 in 2017. As a result, revenues from admission ticket sales has increased by 48% to \$515,578, while revenues from attraction ticket sales and bubble hotels also increased by 53.5% and 29%, respectively.

### **Management's Discussion and Analysis**

Please see the Management's Discussion and Analysis included in Appendix 1 to this Schedule B - "*Financial Statements and Management's Discussion and Analysis*" which should be read in conjunction with the financial statements also included therein.

### **Description of Securities**

TWEL is authorized to issue 50,000 TWEL Shares with no par value, of which 39,773 TWEL Shares are outstanding and held by the Company. Each TWEL Share confers upon the holder thereof (a) the right to one vote at a meeting of TWEL shareholders or on any resolution of TWEL shareholders, (b) the right to an equal share in any dividend paid by TWEL, and (c) the right to an equal share in the distribution of the surplus assets of TWEL on its liquidation. TWEL, by resolution of directors, may redeem, purchase or otherwise acquire all or any of the TWEL Shares in accordance with TWEL's Articles of Association.

## Dividend or Distributions

TWEL has not declared any cash dividends or distributions on its TWEL Shares during each of its three most recently completed financial years and this current financial year. TWEL does not foresee paying dividends in the foreseeable future. Any decision to pay dividends on the TWEL Shares in the future will be made by the board of directors of TWEL (the “**TWEL Board**”) on the basis of TWEL’s earnings and financial requirements as well as other conditions existing at such time.

## Consolidated Capitalization

The following table sets forth the consolidated capitalization of TWEL as at September 30, 2018 before and after giving effect to the Distribution and Transaction, and should be read in conjunction with TWEL’s financial statements (including the notes thereto) included in Appendix 1 to this Schedule B - “*Financial Statements and Management’s Discussion and Analysis*”:

Designation	Outstanding as at September 30, 2018 prior to the Distribution and Transaction	Outstanding as at September 30, 2018 after giving effect to the Distribution and the Transaction
TWEL Shares	39,773	28,930
Paid-up Capital	\$15,291,884	\$3,924,115
Long-term debt	Nil	Nil

## Options to Purchase Securities

TWEL does not have any options to purchase TWEL securities outstanding, and none are expected to be outstanding after the completion of the Distribution and Transaction.

## Prior Sales.

TWEL has not issued any securities during the twelve month period prior to the date of the Circular, except for one TWEL Share issued to the Company on May 23, 2018 at a price of US\$1,357,200.

## Previous Distributions of TWEL Shares

During the last five years TWEL issued the following TWEL Shares to the Company at the price per TWEL Share as follows:

Date	Number of TWEL Shares	Price per TWEL Share
May 23, 2018	1 TWEL Share <sup>(1)</sup>	US \$1,357,200
December 3, 2015	1 TWEL Share <sup>(1)</sup>	US \$6,000,000
September 29, 2015	1 TWEL Share <sup>(1)</sup>	US \$2,268,000
July 6, 2015	39,770 TWEL Shares <sup>(1)</sup>	US \$49.66
<b>Total</b>	<b>39,773 TWEL Shares</b>	

### Note:

(1) All TWEL Shares were issued to the Company.

## Principal Securityholders

All of the TWEL Shares are held by the Company. After the Transaction, it is anticipated that there will be 28,930 TWEL Shares outstanding and that the following persons will own, directly or indirectly, or exercise control or direction over voting securities of TWEL carrying more than 10% of the voting rights to any class of voting securities of TWEL:

Name of Purchaser	Number of Common Shares / Percentage of Outstanding Common Shares	Number of TWEL Shares / Percentage of TWEL Shares proposed to be purchased (Purchase Price)
CN Lifestyle Limited <sup>(1)</sup>	25,106,746 / 34.83%	13,854 / 47.89% (\$1,883,005.95)
Peter Kai-Sing So	10,361,351 / 14.38%	5,718 / 19.76% (\$777,101.33)
Yuxiu Zhao <sup>(2)</sup>	7,730,593 / 10.73%	4,266 / 14.75% (\$579,794.48)
Belva Global Company Limited <sup>(3)</sup>	5,555,556 / 7.71%	3,066 / 10.60% (\$416,666.70)
Merit Sign Holding Limited	3,672,378 / 5.10%	2,026 / 7.00% (\$275,428.35)
Total	52,426,624 / 72.74%	28,930 / 100% (\$3,931,996.80) <sup>(4)</sup>

### Notes:

- (1) Controlled by Messrs. Bob Hot-Hoi Chong and Charles Hok-Hei Chong who are former directors of the Company.
- (2) Ms. Zhao is the Chairperson and Acting Chief Executive Officer of the Company, and the sole director of TWEL.
- (3) Wholly owned by Ms. Pennie Baihan Zong, a director of the Company.
- (4) TWEL will also pay the Company \$1,473,783.68 upon redemption of 10,843 TWEL Shares, which amount is also equal to the Distribution amount payable to Shareholders other than the Purchasers, and which together with the aggregate Purchase Price to be paid by the Purchasers for the TWEL Shares represents aggregate Transaction consideration of \$5,405,780.48. See "Particulars of Matters to be Acted Upon - 2. The Transaction - Overview of Sale of TWEL Shares", "- Implementation of the Transaction" and "- Valuation Report and Fairness Opinion".

## Proposed Directors and Executive Officers

The following table sets forth the names, residency, principal occupation for the prior five years, position(s) with TWEL and the period of service as a director, if applicable, of the proposed directors and executive officers of TWEL after completion of the Transaction. All directors hold office until the next annual meeting of shareholders of TWEL or until the director resigns or a successor is duly elected or appointed:

Name and Residency	Principal Occupation(s) during the Past Five Years	Position(s) with TWEL	Date Elected as a Director, if applicable
Yuxiu Zhao Anhui, China	President of Anhui Hengxin Investment Development Co. Ltd., President and General Manager of Wuhu Hengxin Auto Interior Trim Co., Ltd., and Director of Hengxin Automobile Engine Parts Manufacturing Co., Ltd., Interim Chief Executive Officer of the Company	Director	October 31, 2017

After giving effect to the Transaction, the proposed directors and executive officers of TWEL as a group are expected to beneficially own, directly or indirectly, or exercise control or direction over 4,266 TWEL Shares or approximately 14.75% of the number of the outstanding TWEL Shares.

### *Corporate Cease Trade Orders and Bankruptcies*

To the knowledge of TWEL, during the past ten years, none of the directors or executive officers of TWEL was (i) a director, chief executive officer or chief financial officer of any company that, during his or her tenure or thereafter as a result of an event that occurred during his or her tenure, was the subject of a cease trade order or similar order or an order that denied that company access to any exemptions under securities legislation for a period of more than 30 consecutive days, nor (ii) a director or executive officer of a company that, during his or her tenure or within a year thereafter, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the company.

### *Penalties or Sanctions and Personal Bankruptcies*

To the knowledge of TWEL, no director or executive officer of TWEL has, during the ten years prior to the date hereof, been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or had any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in making an investment decision. To the knowledge of TWEL, none of the directors or executive officers has, during the ten years prior to the date hereof, been bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or has been subject to or instituted any proceedings, arrangement, or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold his or her assets.

### *Conflicts of Interest*

There are no existing or potential material conflicts of interest between TWEL, or any subsidiary of TWEL, and any director or officer of TWEL or a subsidiary of TWEL, except as described in the Circular.

### **Executive Compensation**

Each director and officer of TWEL during the fiscal year ended December 31, 2017 was also a director and/or officer of the Company. Since TWEL does not currently carry on active business, no such officers or directors received any separate remuneration solely in connection with their role as an officer or a director of TWEL. Compensation for all such directors and officers was set by the board of the directors of the Company, with input from the compensation committee of the Company, and is intended to be reflective of the services provided by such directors and/or officers to the Company and the other Alpha Peak group of companies. For further details on the Company's executive compensation policies, please see the section entitled "*Statement of Executive Compensation*" in the Company's amended and restated management information circular dated September 11, 2018, which section is incorporated by reference herein and may be obtained on request, without charge, by contacting the Company. This document is also available through the internet under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at [www.sedar.com](http://www.sedar.com).

Following completion of the Distribution and the Transaction, compensation for the director and officers of TWEL will be set by the TWEL Board.

### **Indebtedness of Directors and Executive Officers of TWEL**

No current or former director, executive officer or employee is indebted to TWEL or any of its subsidiaries, nor are any of such persons indebted to another entity that is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by TWEL or any of its subsidiaries.

None of the directors or executive officers of TWEL, nor any associate of any one of them is or, at any time since the beginning of the most recently completed financial year, has been indebted to TWEL or any of its subsidiaries. None of such persons are indebted to another entity that is, or at any time since the commencement of the most recently completed financial year, has been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by TWEL or any of its subsidiaries.

### **Material Contracts**

Other than contracts entered into in the ordinary course of business and as disclosed herein, there are no material contracts entered into by TWEL since the beginning of the most recently completed financial year or that are still in effect prior to the date hereof.

### **Risk Factors**

Due to the nature of its business, an investment in TWEL should be considered highly speculative. Such investment will be subject to certain material risks and investors should not invest in TWEL unless they can afford to lose their entire investment. Attached as Appendix 2 to this Schedule B - “*Risk Factors*”, is a description of certain risks and uncertainties arising from the Transaction and that may affect the business of TWEL. Readers should note that this list is not a definitive list of all risk factors associated with an investment in TWEL.

### **Legal Proceedings**

TWEL is not currently a party to any legal proceedings, nor is it contemplating any legal proceedings. Management of TWEL is currently not aware of any legal proceedings contemplated against TWEL.

### **Auditor, Transfer Agent and Registrar**

The Auditor of TWEL, Chan Chi Ho (the “**Auditor**”), audited the financial statements of TWEL for the years ended December 31, 2017 and 2016 and issued an auditor’s report dated November 28, 2018. As at such date, the Auditor was not required by securities legislation to enter, and had not entered, into a participation agreement with the Canadian Public Accountability Board. An audit firm that enters into a participation agreement is subject to the oversight program of the Canadian Public Accountability Board.

TWEL will act as the transfer agent and registrar for the TWEL Shares.

### **Experts**

The Auditor prepared the independent auditor’s report for the audited consolidated financial statements of TWEL for the years ended December 31, 2017 and December 31, 2016. The Audit is independent in accordance with the Hong Kong Standards on Auditing and International Financial Reporting Standards (“IFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). The Auditor is independent of TWEL in accordance with the HKICPA’s Code of Ethics for Professional Accountants that is relevant to the audit of TWEL’s financial statements in the British Virgin Islands.

The Valuator prepared the Valuation Report and Fairness Opinion. See “2. Transaction - *Valuation Report and Fairness Opinion - Qualification and Independence*”.

The Auditor and the Valuator (and any of their directors, officers, employees and partners) did not hold, at the time of preparing their respective reports, or thereafter, received or will receive, any direct or indirect interests in the property of TWEL or its associates and affiliates, or any securities of TWEL or its associates and affiliates; and neither the Auditor nor the Valuator nor any of their directors, officers, employees and partners, are or are expected to be elected, appointed or employed as a director, officer or employee of TWEL or its associates or affiliates.

**APPENDIX 1 TO SCHEDULE B**

**TOTAL WONDER ENTERPRISES LIMITED**

**FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Index**

1. TWEL's Audited Financial Statements for the years ended December 31, 2017 and 2016.
2. TWEL's Interim Financial Statements for the nine months ended September 30, 2018.
3. Management's Discussion and Analysis for the years ended December 31, 2017 and 2016 and for the nine months ended September 30, 2018.

**TOTAL WONDER ENTERPRISES LIMITED**

**REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

**ZHONGHUI ANDA CPA LIMITED**  
**中匯安達會計師事務所有限公司**

**TOTAL WONDER ENTERPRISES LIMITED**  
REPORTS AND CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF  
TOTAL WONDER ENTERPRISES LIMITED**  
*(Incorporated in the British Virgin Islands with limited liability)*

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**Opinion**

We have audited the consolidated financial statements of Total Wonder Enterprises Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 3 to 26, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

**Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Material Uncertainty Related to Going Concern**

We draw attention to note 2 to the consolidated financial statements which mentions that the Group incurred a loss of CAD29,400,396 for the year ended 31 December 2017 and as at 31 December 2017 the Group had net current liabilities of CAD203,027. These conditions indicate a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Responsibilities of Sole Director for the Consolidated Financial Statements**

The sole director is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, and for such internal control as the sole director determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the sole director is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the sole director either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE SHAREHOLDERS OF**  
**TOTAL WONDER ENTERPRISES LIMITED**  
*(Incorporated in the British Virgin Islands with limited liability)*

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**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/>

This description forms part of our auditor's report.



**ZHONGHUI ANDA CPA Limited**  
Certified Public Accountants  
**Sze Lin Tang**  
Audit Engagement Director  
Practising Certificate Number P03614  
Hong Kong, 23 November 2018

**TOTAL WONDER ENTERPRISES LIMITED**

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

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	<u>2017</u> CAD	<u>2016</u> CAD
<b>Revenue</b>	8	1,391,549	1,647,025
Cost of sales/services		<u>(2,231,454)</u>	<u>(2,721,094)</u>
Gross loss		(839,905)	(1,074,069)
Other income and other gains/(losses), net	9	307,993	528,328
Selling and distribution expenses		(880,177)	(1,457,367)
Impairment loss of intangible assets			
arising from a service concession arrangement	16	(7,770,223)	-
Write-off of property, plant and equipment	14	(7,471,811)	-
Impairment loss of property, plant and equipment	14	(10,163,037)	-
Administrative and other operating expenses		<u>(2,483,632)</u>	<u>(1,803,974)</u>
<b>Loss from operations</b>		<u>(29,300,792)</u>	<u>(3,807,082)</u>
Finance costs	10	<u>(99,604)</u>	<u>(102,147)</u>
<b>Loss before tax</b>		<u>(29,400,396)</u>	<u>(3,909,229)</u>
Income tax credit	11	-	46,513
<b>Loss for the year</b>	12	<u>(29,400,396)</u>	<u>(3,862,716)</u>
<b>Other comprehensive income/(loss):</b>			
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>210,726</u>	<u>(4,893,588)</u>
<i>Items that will not be reclassified to profit or loss:</i>			
Gain on revaluation of property, plant and equipment		-	1,472,915
Reversal of deferred tax liability on revaluation and impairment loss of property, plant and equipment		-	1,167,680
Impairment loss of property, plant and equipment		<u>-</u>	<u>(6,143,637)</u>
		<u>-</u>	<u>(3,503,042)</u>
<b>Other comprehensive income/(loss) for the year</b>		<u>210,726</u>	<u>(8,396,630)</u>
<b>Total comprehensive loss for the year</b>		<u>(29,189,670)</u>	<u>(12,259,346)</u>

**TOTAL WONDER ENTERPRISES LIMITED**

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Notes	<u>2017</u> CAD	<u>2016</u> CAD
<b>Non-current assets</b>			
Property, plant and equipment	14	1,820,564	19,582,723
Prepaid land lease payments	15	296,600	307,865
Intangible assets arising from a service concession arrangement	16	-	8,063,027
Intangible assets	17	8,003	12,474
Advances to a local authority	18	2,014,733	1,904,130
		<u>4,139,900</u>	<u>29,870,219</u>
<b>Current assets</b>			
Inventories	19	26,334	30,085
Trade and other receivables	20	112,609	111,118
Prepaid land lease payments	15	9,975	10,017
Structured deposits	21	2,403,430	-
Bank and cash balances	22	2,055,055	7,057,529
		<u>4,607,403</u>	<u>7,208,749</u>
<b>Current liabilities</b>			
Other payables	23	1,997,627	1,675,436
Amount due to immediate holding company	25	835,898	-
Amounts due to related parties	25	48,216	201,277
Loans from related parties	26	1,928,689	-
		<u>4,810,430</u>	<u>1,876,713</u>
<b>Net current (liabilities)/assets</b>		<u>(203,027)</u>	<u>5,332,036</u>
<b>Total assets less current liabilities</b>		<u>3,936,873</u>	<u>35,202,255</u>

**TOTAL WONDER ENTERPRISES LIMITED**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

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	Notes	<u>2017</u> CAD	<u>2016</u> CAD
<b>Non-current liabilities</b>			
Loan from a related party	26	<u>-</u>	<u>2,075,712</u>
<b>NET ASSETS</b>		<u>3,936,873</u>	<u>33,126,543</u>
<b>Capital and reserves</b>			
Share capital	27	13,551,884	13,551,884
Reserves		<u>(9,615,011)</u>	<u>19,574,659</u>
<b>TOTAL EQUITY</b>		<u>3,936,873</u>	<u>33,126,543</u>

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The consolidated financial statements on pages 3 to 26 were approved and authorised for issue by the sole director on 23 November 2018 and are signed on its behalf by:



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Sole Director  
Zhao Yuxiu

**TOTAL WONDER ENTERPRISES LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Share capital CAD	Capital reserve CAD (Note)	Other reserve CAD	Revaluation reserve CAD	Exchange reserve CAD	Accumulated losses CAD	Total CAD
At 1 January 2016	13,551,884	2,999,463	34,398,171	3,503,042	11,173,211	(20,239,882)	45,385,889
Total comprehensive loss for the year	-	-	-	(3,503,042)	(4,893,588)	(3,862,716)	(12,259,346)
At 31 December 2016	<u>13,551,884</u>	<u>2,999,463</u>	<u>34,398,171</u>	<u>-</u>	<u>6,279,623</u>	<u>(24,102,598)</u>	<u>33,126,543</u>
At 1 January 2017	13,551,884	2,999,463	34,398,171	-	6,279,623	(24,102,598)	33,126,543
Total comprehensive loss for the year	-	-	-	-	210,726	(29,400,396)	(29,189,670)
At 31 December 2017	<u>13,551,884</u>	<u>2,999,463</u>	<u>34,398,171</u>	<u>-</u>	<u>6,490,349</u>	<u>(53,502,994)</u>	<u>3,936,873</u>

Note:

The amount represents the loans waived by a shareholder of Merit Sign Investments Limited, a subsidiary of the Company, and recognised as deemed contribution in previous years.

**TOTAL WONDER ENTERPRISES LIMITED**  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2017

	<u>2017</u> CAD	<u>2016</u> CAD
<b>Cash flows from operating activities</b>		
Loss before tax	(29,400,396)	(3,909,229)
Adjustments for:		
Finance costs	99,604	102,147
Depreciation of property, plant and equipment	768,193	670,225
Amortisation of intangible assets arising from a service concession arrangement	258,657	266,196
Amortisation of prepaid land lease payments	10,309	10,310
Amortisation of intangible assets	4,411	9,089
Loss on disposal of property, plant and equipment	15,334	12,037
Write-off of property, plant and equipment	7,471,811	-
Impairment loss of intangible assets arising from a service concession arrangement	7,770,223	-
Impairment loss of property, plant and equipment	10,163,037	-
Bank interest income	(7,706)	(24,072)
Provision of construction services under a service concession arrangement	-	(730,811)
Imputed interest income on advances to a local authority	(118,424)	(117,890)
Exchange gains, net	<u>(181,863)</u>	<u>(376,699)</u>
Operating cash flows before working capital changes	(3,146,810)	(4,088,697)
Change in inventories	2,834	124,801
Change in trade and other receivables	(1,957)	258,768
Change in other payables	<u>744,753</u>	<u>517,024</u>
<b>Net cash used in operating activities</b>	<u>(2,401,180)</u>	<u>(3,188,104)</u>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(768,193)	(808,116)
Placement of structured deposits	(2,403,430)	-
Interest received	<u>7,706</u>	<u>24,072</u>
<b>Net cash used in investing activities</b>	<u>(3,163,917)</u>	<u>(784,044)</u>
<b>Cash flows from financing activities</b>		
Advance from/(repayment to) immediate holding company	834,769	(307,897)
Repayment to from related parties	<u>(243,106)</u>	<u>(9,445)</u>
<b>Net cash generated from/(used in) financing activities</b>	<u>591,663</u>	<u>(317,342)</u>
<b>Net decrease in cash and cash equivalents</b>	(4,973,434)	(4,289,490)
Effects of foreign exchange rate changes	(29,040)	(392,497)
Cash and cash equivalents at beginning of year	<u>7,057,529</u>	<u>11,739,516</u>
<b>Cash and cash equivalents at end of year</b>	<u>2,055,055</u>	<u>7,057,529</u>
<b>Analysis of cash and cash equivalents</b>		
Bank and cash balances	<u>2,055,055</u>	<u>7,057,529</u>

**TOTAL WONDER ENTERPRISES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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1. GENERAL INFORMATION

Total Wonder Enterprises Limited (the "Company") was incorporated in the British Virgin Islands (the "BVI") with limited liability under the BVI Companies Act. The address of its registered office is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

The Company is an investment holding company. The Group's business was developing and operating Swallow Gully Scenic Area ("Swallow Gully"), a large scale tourist attraction site in Sichuan Province, the People's Republic of China (the "PRC").

In the opinion of the sole director of the Company (the "Director"), as at 31 December 2017, Alpha Peak Leisure Inc., a company incorporated in British Columbia of Canada with limited liability under the British Columbia Business Corporation Act, is the immediate holding company of the Company.

The consolidated financial statements are presented in Canadian dollars ("CAD"), which is the Company's functional currency and the Group's presentation currency.

2. GOING CONCERN BASIS

The Group incurred a loss of CAD29,400,396 for the year ended 31 December 2017 and as at 31 December 2017 the Group had net current liabilities of CAD203,027. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the immediate holding company, at a level sufficient to finance the working capital requirements of the Group. The immediate holding company has agreed to provide adequate funds for the Group to meet its liabilities as they fall due. The Director is therefore of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board that are relevant to its operations and effective for its accounting year beginning on 1 January 2017. IFRSs comprise International Financial Reporting Standards; International Accounting Standards ("IAS"); and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior year.

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with IFRSs and under the historical cost convention, as modified by the revaluation of attractions and improvement and buildings included in property, plant and equipment which are carried at their fair values less costs to sell.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the Director to exercise the judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 5.

**TOTAL WONDER ENTERPRISES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in CAD, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(c) Translation on consolidation

The results and financial position of all the Group's entities that have a functional currency different from the Group's presentation currency are translated into the Group's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the exchange reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

**TOTAL WONDER ENTERPRISES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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Property, plant and equipment

Property, plant and equipment are stated at cost or revalued amount less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Revaluation increases of attractions and improvement and buildings are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the revaluation reserve are charged against the revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of a revalued attractions and improvement and buildings, the attributable revaluation increases remaining in the revaluation reserve is transferred directly to retained profits.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their costs less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Attractions and improvement	10-40 years
Buildings	36-40 years
Motor vehicles	4 years
Others	3-5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Intangible assets

*Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The intangible assets acquired separately are amortised on a straight-line basis over the following useful lives:

Hot spring prospecting rights	10 years
Trademark	10 years
Patent	10 years
Others	10 years

*Intangible assets arising from a service concession arrangement*

When the Group has a right to charge for usage of concession infrastructure as a consideration for providing construction service in a service concession arrangement, it recognises an intangible asset at fair value upon initial recognition. The intangible asset is carried at cost less accumulated amortisation and any accumulated impairment loss, if any. Amortisation is recognised on a straight-line basis over the period which commence from the date when the part of the tourist attraction site is available for use.

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

**TOTAL WONDER ENTERPRISES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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Operating leases

*The Group as lessee*

Leases that do not substantially transfer all the risks and rewards of ownership of assets to the Group are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in-first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Construction contracts

Where the outcome of a construction contract including construction of the infrastructure under a service concession arrangement can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss ("FVTPL").

Financial assets at FVTPL are either investments classified as held for trading or designated as at FVTPL upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in profit or loss.

**TOTAL WONDER ENTERPRISES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the recoverable amount of the receivables can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

*Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

*Other payables*

Other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

- (a) Revenue from sales of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.
- (b) The Group provides construction services in exchange for concession intangible assets. The revenue from construction services is recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date on the estimated total contract costs.
- (c) Revenue from admission ticket sales and attraction ticket sales is recognised when the tickets are sold and delivered. Admission tickets allow visitors to enter into the tourist site while attraction tickets grant the rights to visitors to enjoy the build-in facilities in the tourist spot.
- (d) Interest income is recognised on a time-proportion basis using the effective interest method.

**TOTAL WONDER ENTERPRISES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(c) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**TOTAL WONDER ENTERPRISES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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Related parties

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (b) An entity is related to the Group (reporting entity) if any of the following conditions applies:
- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

Impairment of assets

At the end of each reporting period, the 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 the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

**TOTAL WONDER ENTERPRISES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the Director has made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements.

Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the immediate holding company at a level sufficient to finance the working capital requirements of the Group. Details are explained in note 2 to consolidated financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the fair value less costs of disposal. Where the fair value less costs of disposal are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of fair value less costs of disposal, a material impairment loss may arise.

(c) Impairment assessment of intangible assets arising from a service concession arrangement

At the end of the reporting period, management would estimate future cash flows generated by the concession intangible assets and determine whether there is any indication on impairment. If such indication exists, the recoverable amount of the concession intangible assets would be estimated and the carrying amount of concession intangible assets would be written down to the recoverable amount and the amount of the write-down would be charged against the profit and loss.

(d) Valuation of property, plant and equipment

Attractions and improvement as well as buildings included in the property, plant and equipment are revalued based on the valuation performed by independent professional valuers. The determination of the valuation involves certain assumptions of market conditions which are set out in note 14. In relying on the valuation report, management has exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions. Changes to these assumptions would result in changes in the valuation of the Group's property, plant and equipment and the corresponding adjustments to the amount of gain or loss arising on the revaluation of property, plant and equipment would be recognised in other comprehensive income.

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(e) Estimated impairment of advances to a local authority

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2017, the carrying amount of advances to a local authority is CAD2,014,733 (2016: CAD1,904,130) and no impairment on advances to a local authority has been made for the year (2016: Nil).

(f) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as some of its business transactions, assets and liabilities are not principally denominated in the functional currencies of the Group's entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2017, if CAD had weakened/strengthened by 5% against Hong Kong dollars and Renminbi ("RMB") with all other variables held constant, the Group's loss after tax for the year would have been approximately CAD6,000 (2016: 46,000) lower/higher, arising mainly as a result of the foreign exchange differences on translation of bank and cash balances and loans from related parties.

(b) Credit risk

The carrying amount of bank and cash balances, trade and other receivables, structured deposits and advances to a local authority included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

In order to minimise credit risk, the Director has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the Director reviews the recoverable amount of each individual debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the Director considers that the Group's credit risk is significantly reduced.

The credit risk on bank and cash balances and structured deposits are limited because the counterparties are banks with high credit-ratings.

The credit risk on advances to a local authority is limited because the local authority is state owned.

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(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follow:

	Less than 3 months CAD	Between 3 months to 1 year CAD	Between 1 to 5 years CAD	Total undiscounted cash flow CAD	Carrying amounts CAD
<u>At 31 December 2017</u>					
Other payables	1,546,177	-	-	1,546,177	1,546,177
Amount due to immediate holding company	835,898	-	-	835,898	835,898
Amounts due to related parties	48,216	-	-	48,216	48,216
Loans from related parties	24,109	2,001,015	-	2,025,124	1,928,689
	<u>2,454,400</u>	<u>2,001,015</u>	<u>-</u>	<u>4,455,415</u>	<u>4,358,980</u>
<u>At 31 December 2016</u>					
Other payables	1,336,707	-	-	1,336,707	1,336,707
Amounts due to related parties	201,277	-	-	201,277	201,277
Loan from a related party	25,947	77,839	2,179,498	2,283,284	2,075,712
	<u>1,563,931</u>	<u>77,839</u>	<u>2,179,498</u>	<u>3,821,268</u>	<u>3,613,696</u>

(d) Interest rate risk

The Group's exposure to interest rate risk arises from its bank deposits and loans from related parties. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

At 31 December 2017, if the interest rate had been increased/decreased by 100 basis points and other variables were held constant, the Group's loss after tax for the year would have been decreased/increased by approximately CAD1,000 (2016: CAD50,000).

(e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

(f) Categories of financial instruments

	<u>2017</u> CAD	<u>2016</u> CAD
<u>Financial assets</u>		
Loans and receivables (including cash and cash equivalents)	4,116,391	8,995,169
Financial assets at FVTPL (including structured deposits)	2,403,430	-
	<u>6,519,821</u>	<u>8,995,169</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost	<u>4,358,980</u>	<u>3,613,696</u>

7. FAIR VALUE MEASUREMENTS

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. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

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(a) Disclosures of level in fair value hierarchy at 31 December:

	Fair value measurements using:			Total 2017 CAD
	Level 1 CAD	Level 2 CAD	Level 3 CAD	
<b>Recurring fair value measurements:</b>				
Financial assets of FVTPL				
Structured deposits	-	-	2,403,430	2,403,430

During the year ended 31 December 2017, there were no transfer between Level 1 and Level 2, or transfers into or out of Level 3 (2016: Nil). The Group's policy is to recognise transfer between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(b) Reconciliation of assets measured at fair value based on level 3:

No gains or losses are recognised in profit or loss relating to the change in fair value of structured deposits classified as Level 3 in the current year as the amount involved is insignificant, and therefore no reconciliation of Level 3 fair value measurement is presented.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December:

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Director for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Director at least twice a year.

Key unobservable inputs used in level 3 fair value measurements are mainly:

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2017 CAD
Structured deposits	Discounted cash flows	Expected yields	2.8%-4%	Increase	2,403,430

The Director considers that the impact of the fluctuation in expected yields of the money market instruments and debt instruments to the fair value of the structured deposits are insignificant as the deposits have short maturities, and therefore no sensitivity analysis is presented.

8. REVENUE

	<u>2017</u> CAD	<u>2016</u> CAD
Provision of construction services under a service concession arrangement	-	730,811
Admission ticket sales	515,578	347,806
Attraction ticket sales	867,303	564,893
Others	8,668	3,515
	<u>1,391,549</u>	<u>1,647,025</u>

9. OTHER INCOME AND OTHER GAINS/(LOSSES), NET

	<u>2017</u> CAD	<u>2016</u> CAD
Imputed interest income on advances to a local authority (Note 18)	118,424	117,890
Bank interest income	7,706	24,072
Sundry income	-	9,667
Exchange gains, net	181,863	376,699
	<u>307,993</u>	<u>528,328</u>

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10. FINANCE COSTS

	<u>2017</u>	<u>2016</u>
	CAD	CAD
Interests on loans from related parties/a related party	99,604	102,147

11. INCOME TAX CREDIT

	<u>2017</u>	<u>2016</u>
	CAD	CAD
Deferred tax (Note 24)	-	(46,513)

No provision for taxation in Hong Kong has been made as the Group did not have any assessable profit arising from Hong Kong for both years.

No provision for the PRC enterprise income tax is required since the Group has no assessable profit for both years.

The reconciliation between income tax credit and loss before tax is as follows:

	<u>2017</u>	<u>2016</u>
	CAD	CAD
Loss before tax	(29,400,396)	(3,909,229)
Tax at the PRC enterprise income tax rate of 25%	(7,350,099)	(977,307)
Tax effect of expenses not deductible for tax purpose	52,857	245,789
Tax effect of income not taxable for tax purpose	(29,902)	(80,425)
Tax effect of tax losses not recognised	7,243,840	692,350
Effect of different tax rates of subsidiaries operating in other jurisdictions	83,304	73,080
Income tax credit	-	(46,513)

At the end of the reporting period, the Group has unused tax losses of approximately CAD20,200,000 (2016: CAD16,170,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Unrecognised tax losses of approximately CAD18,293,000 will expire from 2018 to 2022 (2016: CAD15,260,000 will expire from 2017 to 2021) and approximately CAD1,907,000 (2016: CAD910,000) may be carried forward indefinitely, subject to final determination by tax authorities.

12. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging the following:

	<u>2017</u>	<u>2016</u>
	CAD	CAD
Auditor's remuneration	159,456	148,143
Contract cost recognised for tourist attraction business	-	730,811
Depreciation of property, plant and equipment	768,193	670,225
Amortisation of intangible assets	4,411	9,089
Amortisation of intangible assets arising from a service concession arrangement	258,657	266,196
Amortisation of prepaid land lease payments	10,309	10,310
Loss on disposal of property, plant and equipment	15,334	12,037
Write-off of property, plant and equipment	7,471,811	-
Impairment loss of intangible assets arising from a service concession arrangement	7,770,223	-
Impairment loss of property, plant and equipment	10,163,037	-
Operating lease expenses in respect of office premises	114,944	114,525
Staff costs (including director's remuneration):		
Salaries, bonuses and allowances	1,512,853	1,307,728
Retirement benefit scheme contributions	193,046	177,697
	1,705,899	1,485,425

13. DIVIDENDS

The Director does not recommend the payment of any dividend for the year ended 31 December 2017 (2016: Nil).

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14. PROPERTY, PLANT AND EQUIPMENT

	Attractions and improvement	Buildings	Motor vehicles	Others	Total
	CAD	CAD	CAD	CAD	CAD
<u>Cost or valuation</u>					
At 1 January 2016	24,498,809	3,882,687	1,705,005	97,013	30,183,514
Additions	643,981	43,415	143,982	33,142	864,520
Disposals	-	-	(240,752)	-	(240,752)
Impairment loss recognised in other comprehensive income	(2,801,169)	(1,037,468)	-	-	(3,838,637)
Exchange realignment	(2,748,444)	(617,088)	(161,093)	(7,381)	(3,534,006)
At 31 December 2016 and 1 January 2017	19,593,177	2,271,546	1,447,142	122,774	23,434,639
Additions	714,950	-	81,557	17,957	814,464
Disposals	-	-	(205,972)	(29,622)	(235,594)
Written off	(8,424,191)	(338,843)	-	-	(8,763,034)
Exchange realignment	(111,748)	(13,860)	(6,544)	(1,620)	(133,772)
At 31 December 2017	11,772,188	1,918,843	1,316,183	109,489	15,116,703
Comprising:					
At 31 December 2017					
At cost	-	-	1,316,183	109,489	1,425,672
At valuation	11,772,188	1,918,843	-	-	13,691,031
	11,772,188	1,918,843	1,316,183	109,489	15,116,703
At 31 December 2016					
At cost	-	-	1,447,142	122,774	1,569,916
At valuation	19,593,177	2,271,546	-	-	21,864,723
	19,593,177	2,271,546	1,447,142	122,774	23,434,639
<u>Accumulated depreciation and impairment</u>					
At 1 January 2016	896,490	164,119	1,498,879	19,236	2,578,724
Charge for the year	476,981	66,648	83,463	43,133	670,225
Adjustment for revaluation	(1,271,415)	(201,500)	-	-	(1,472,915)
Eliminated on disposals	-	-	(228,715)	-	(228,715)
Impairment loss recognised in other comprehensive income	1,982,885	322,115	-	-	2,305,000
Exchange realignment	121,349	20,269	(139,904)	(2,117)	(403)
At 31 December 2016 and 1 January 2017	2,206,290	371,651	1,213,723	60,252	3,851,916
Charge for the year	593,808	61,927	81,261	31,197	768,193
Eliminated on written off	(1,223,797)	(67,426)	-	-	(1,291,223)
Eliminated on disposals	-	-	(195,674)	(24,586)	(220,260)
Impairment loss recognised in profit or loss	10,163,037	-	-	-	10,163,037
Exchange realignment	32,850	(2,182)	(5,526)	(666)	24,476
At 31 December 2017	11,772,188	363,970	1,093,784	66,197	13,296,139
<u>Carrying amounts</u>					
At 31 December 2017	-	1,554,873	222,399	43,292	1,820,564
At 31 December 2016	17,386,887	1,899,895	233,419	62,522	19,582,723

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Attractions and improvement and buildings of the Group were revalued on 31 December 2017 at a total carrying amount of CAD1,554,873 (2016: CAD19,286,782). In estimating the fair values of the attractions and improvement and buildings, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent professional qualified valuers to perform valuation. Management works closely with the independent professional qualified valuers to establish the appropriate valuation technique and inputs to the model. Management reports the findings and explains the cause of fluctuations in the fair values of the attractions and improvement and buildings, if any.

Attractions and improvement and buildings of the Group were revalued by Vigers Appraisal & Consulting Limited ("Vigers") on 31 December 2016 on the depreciated replacement cost approach that reflects the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence.

*Impairment loss recognised during the year ended 31 December 2017:*

As a result of the unfavourable performance and change in business plan of Gongga Terraferma Limited ("Gongga"), a wholly owned subsidiary of the Company, management conducted impairment assessments of the property, plant and equipment and intangible assets arising from a service concession arrangement of Gongga. Except for certain buildings included in property, plant and equipment, Gongga is considered as a cash-generating unit ("CGU") for the purpose of the impairment test. A CGU is considered to be impaired when its recoverable amount declines below its carrying amount. The recoverable amount is the higher of value in use and fair value less costs of disposal.

The recoverable amount of Gongga, excluding the revalued amount of certain buildings included in property, plant and equipment as at 31 December 2017, was determined based on value-in-use calculation and certain key assumptions. Value-in-use calculation used cash flow projections based on financial budgets approved by the management covering a five-year period. Discount rate used for the value-in-use calculation is 18.34%. Cash flow beyond the five-year period was extrapolated using a growth rate of 3.0%. Other key assumptions for the value-in-use calculation related to the estimation of cash inflows/outflows which include gross budgeted sales and gross margin. Such estimation was based on the management's expectations for the market development.

During the year ended 31 December 2017, an impairment loss of CAD10,163,037 was recognised in respect of attractions and improvement in profit or loss. In addition, a write-off of CAD7,471,811 was recognised in profit or loss during the year ended 31 December 2017, of which (i) CAD7,200,394 was in relation to attractions and improvement; and (ii) CAD271,417 was in relation to buildings.

During the year ended 31 December 2016, an impairment loss of CAD6,143,637 was recognised in other comprehensive income, of which (i) CAD4,784,054 was allocated to attractions and improvement; and (ii) CAD1,359,583 was allocated to buildings on a pro rata basis with reference to their respective carrying amounts before impairment, and reduced the corresponding revaluation surplus.

15. PREPAID LAND LEASE PAYMENTS

	<u>2017</u>	<u>2016</u>
	CAD	CAD
The Group's prepaid lease payments comprises:		
Leasehold interest in land in the PRC	<u>306,575</u>	<u>317,882</u>
Analysed for reporting purpose as:		
Current assets	9,975	10,017
Non-current assets	<u>296,600</u>	<u>307,865</u>
	<u>306,575</u>	<u>317,882</u>

The Group's prepaid land lease payments represent the payment for land use right situated in the PRC.

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16. INTANGIBLE ASSETS ARISING FROM A SERVICE CONCESSION ARRANGEMENT

	CAD
<u>Cost</u>	
At 1 January 2016	9,334,321
Additions	730,811
Exchange realignment	(917,808)
At 31 December 2016 and 1 January 2017	<u>9,147,324</u>
Exchange realignment	(38,342)
At 31 December 2017	<u>9,108,982</u>
<u>Accumulated amortisation and impairment</u>	
At 1 January 2016	913,460
Amortisation for the year	266,196
Exchange realignment	(95,359)
At 31 December 2016 and 1 January 2017	<u>1,084,297</u>
Amortisation for the year	258,657
Impairment loss recognised in profit and loss	7,770,223
Exchange realignment	(4,195)
At 31 December 2017	<u>9,108,982</u>
<u>Carrying amounts</u>	
At 31 December 2017	<u>-</u>
At 31 December 2016	<u>8,063,027</u>

Gonga entered into a service concession arrangement with Ganzi Hailuogou Attractions Authority ("Grantor"), a local authority in the PRC, in 2007 in respect of the construction and operation of tourist attraction business in Sichuan Province, the PRC. The service concession period is 40 years.

Gonga acted as an operator in the service concession arrangement to construct the tourist attraction and to operate and maintain the tourist attraction at a specified level of serviceability on behalf of the local authority over the service concession period on a build-operate-transfer ("BOT") basis. The tourist attraction on a BOT basis mainly includes the basic infrastructure in the tourist attraction such as the pavements, electricity supply, restaurants etc.

Under the service concession arrangement contract, the Group can share 80% of the admission ticket sales and entitle to the entire amount of attraction ticket sales with the remaining 20% admission ticket sales shared by the Grantor. During the operation phase of the service concession period, the Group is not entitled to receive guaranteed receipts of tourist operation from the Grantor.

Intangible assets arising from a service concession arrangement represents costs incurred by the Group for the construction services rendered under the service concession arrangement for the tourist attraction in the PRC on a BOT basis. Revenue and costs relating to the construction phase of the contract are accounted for in accordance with IAS 11 "Construction Contracts" which the revenue on construction is recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date to the estimated total contract costs.

Revenue and costs relating to the operation phase of the contract are accounted for in accordance with IAS 18 "Revenue" which revenue is measured at the fair value of the consideration received or receivable.

During the year ended 31 December 2017, the Group did not recognise any revenue from construction services in relation to the tourist attraction under BOT (2016: CAD730,811) by reference to the stage of completion of the construction work.

The intangible assets arising from a service concession arrangement has finite useful lives and amortised over the period which commence from the date when the part of the tourist attraction site is available for use, i.e. 36 to 40 years, using a straight-line method.

As disclosed in note 14, management conducted impairment assessments of property, plant and equipment and intangible asset arising from a service concession arrangement of Gonga due to unfavourable performance and change in business plan of Gonga.

Intangible assets arising from a service concession arrangement is fully impaired and impairment loss of CAD7,770,223 has been recognised during the year ended 31 December 2017.

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**17. INTANGIBLE ASSETS**

	Hot spring prospecting <u>rights</u>	<u>Trademark</u>	<u>Patent</u>	<u>Others</u>	<u>Total</u>
	CAD	CAD	CAD	CAD	CAD
<u>Cost</u>					
At 1 January 2016	70,203	11,749	705	25,015	107,672
Disposals	-	(318)	-	-	(318)
Exchange realignment	(6,745)	(1,120)	(68)	(2,404)	(10,337)
At 31 December 2016 and 1 January 2017	63,458	10,311	637	22,611	97,017
Exchange realignment	(267)	(44)	(2)	(95)	(408)
At 31 December 2017	63,191	10,267	635	22,516	96,609
<u>Accumulated amortisation and impairment</u>					
At 1 January 2016	60,039	9,308	441	14,315	84,103
Amortisation for the year	6,112	584	66	2,327	9,089
Eliminated on disposals	-	(318)	-	-	(318)
Exchange realignment	(5,944)	(901)	(45)	(1,441)	(8,331)
At 31 December 2016 and 1 January 2017	60,207	8,673	462	15,201	84,543
Amortisation for the year	1,412	687	63	2,249	4,411
Exchange realignment	(250)	(35)	(2)	(61)	(348)
At 31 December 2017	61,369	9,325	523	17,389	88,606
<u>Carrying amounts</u>					
At 31 December 2017	1,822	942	112	5,127	8,003
At 31 December 2016	3,251	1,638	175	7,410	12,474

**18. ADVANCES TO A LOCAL AUTHORITY**

The amount represents the funds advanced to Grantor in relation to the construction of the infrastructure outside the tourist attraction site.

During the year ended 31 December 2017, imputed interest income of CAD118,424 (2016: CAD117,890) has been recognised and included in "Other income". Imputed interest rate of 6.4% per annum is applied.

The advances are interest-free and unsecured. In the opinion of the Director, the advances will not be settled in the coming twelve months from the end of the reporting period and is therefore classified as non-current assets.

**19. INVENTORIES**

	<u>2017</u>	<u>2016</u>
	CAD	CAD
Consumable goods	2,359	2,901
Souvenirs	23,975	27,184
	<u>26,334</u>	<u>30,085</u>

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**20. TRADE AND OTHER RECEIVABLES**

	<u>2017</u>	<u>2016</u>
	CAD	CAD
Trade receivables	6,812	9,878
Prepayments	66,006	77,608
Other receivables	39,791	23,632
	<u>112,609</u>	<u>111,118</u>

The Group's admission tickets and attraction tickets sales are largely operated on cash on delivery or due immediately from date of billing, except for a credit term of 30 days is granted to travel agents.

Before granting credit period to any new travel agent, the Group has assessed the credit quality of each potential travel agent and defined credit rating and limit for each travel agent. In addition, the Group has reviewed the repayment history of receivables by each travel agent with reference to the payment terms stated in contracts to determine the recoverability of receivables.

Included in the Group's trade receivables are debtors with aggregate carrying amount of CAD6,812 (2016: CAD9,878) which are past due by 91 to 180 days at the end of the reporting period for which the Group has not provided for impairment loss as they had been fully settled subsequent to the end of the reporting period. The Group does not hold any collateral over these balances.

**21. STRUCTURED DEPOSITS**

The structured deposits represented deposits of RMB12,500,000 (equivalent to approximately CAD2,403,430) which were issued by a bank in the PRC. The structured deposits carry interests at expected interest rate that range from 2.8% to 4.65% per annum, which are linked to the performance of the underlying money instruments and debt instruments, payable on maturity 14 days and 90 days from the date of purchase. The structured deposits are designated at FVTPL on initial recognition as it contains non-closely related embedded derivative.

No change in fair value for the structured deposits is recognised in profit or loss for the year ended 31 December 2017 as the effect is not significant.

**22. BANK AND CASH BALANCES**

As at 31 December 2017, the bank and cash balances of the Group denominated in RMB amounted to CAD1,802,009 (2016: CAD2,158,856). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

**23. OTHER PAYABLES**

	<u>2017</u>	<u>2016</u>
	CAD	CAD
Construction expenses	575,025	439,093
Admission ticket sales proceeds entitled by a local authority	451,450	338,729
Legal and professional fee	87,278	172,976
Advertising expenses	524,215	454,373
Staff costs	58,505	62,584
Sub-contracting expenses	18,666	9,654
Others	282,488	198,027
	<u>1,997,627</u>	<u>1,675,436</u>

**TOTAL WONDER ENTERPRISES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

**24. DEFERRED TAX LIABILITY**

At the end of the reporting period, deferred tax liability has been recognised and movement thereon during the year is as follows:

	Revaluation of property, plant and equipment
	CAD
At 1 January 2016	1,535,001
Charged to equity for the year	(1,167,680)
Credited to profit or loss (Note 11)	(46,513)
Exchange realignment	(320,808)
At 31 December 2016, 1 January 2017 and 31 December 2017	<u>-</u>

**25. AMOUNTS DUE TO IMMEDIATE HOLDING COMPANY/RELATED PARTIES**

The amounts due were unsecured, interest-free and repayable on demand.

**26. LOANS FROM RELATED PARTIES/A RELATED PARTY**

Loan from a related party was unsecured, interest bearing at Hong Kong Prime Rate of 5% per annum with maturity on 31 December 2018.

On 1 September 2017, the Group entered into a loan assignment agreement with a related party and related parties under which the a related party assigned its right relating to the loan and all its interest accrued with an aggregate amount of HK\$12,100,000 (equivalent to approximately CAD2,000,000) to the related parties with immediate effect.

As at 31 December 2017, loans from related parties of CAD1,928,689 is unsecured, interest bearing at Hong Kong Prime Rate of 5% per annum with maturity on 31 December 2018 and amounts due to related parties of CAD48,216 (2016: Nil) represent interest payable from such loans, are unsecured, interest-free and repayable on demand.

**27. SHARE CAPITAL**

**Issued and fully paid**

	Number of ordinary shares	Share capital HK\$	Equivalent share capital CAD
As at 31 December 2016 and 31 December 2017	<u>39,772</u>	<u>78,938,570</u>	<u>13,551,884</u>

**28. CAPITAL RISK MANAGEMENT**

The Group manages its capital to ensure that group entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall capital management strategy remains unchanged from prior year.

Management reviews the capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with the capital. Based on recommendations of management, the Group will balance its overall capital structure through new share issues as well as issue of new debt.

**TOTAL WONDER ENTERPRISES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

**29. OPERATING LEASE COMMITMENTS**

*As lessee*

At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases in respect of office premises are payable as follows:

	<u>2017</u>	<u>2016</u>
	CAD	CAD
Within one year	82,551	73,088
In the second to fifth years, inclusive	101,762	26,643
	<u>184,313</u>	<u>99,731</u>

**30. RELATED PARTY TRANSACTIONS**

In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, during the year, the Group had the following transactions with its related party:

	<u>2017</u>	<u>2016</u>
	CAD	CAD
Management fee payable to a related party	40,867	19,956

**31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS**

*Changes in liabilities arising from financing activities*

The following table shows Group's changes in liabilities arising from financing activities during the year:

	Advance from immediate holding <u>company</u> CAD	Loans from a related <u>party</u> CAD	Loans from related <u>parties</u> CAD	Amounts due to related <u>parties</u> CAD	Total liabilities from financing <u>activities</u> CAD
At 1 January 2017	-	2,075,712	-	201,277	2,276,989
Changes in cash flows	834,769	-	-	(243,106)	591,663
Non-cash changes					
- Transfers (Note 26)	-	(2,075,712)	2,075,712	-	-
- Finance costs	-	-	-	99,604	99,604
- Exchange differences	1,129	-	(147,023)	(9,559)	(155,453)
At 31 December 2017	<u>835,898</u>	<u>-</u>	<u>1,928,689</u>	<u>48,216</u>	<u>2,812,803</u>

**32. PARTICULARS OF SUBSIDIARIES OF THE COMPANY**

Particulars of the Company's subsidiaries as at 31 December 2017 are as follows:

<u>Name</u>	<u>Place of incorporation</u>	<u>Issued and paid-up capital</u>	<u>Percentage of the ownership interest/voting power</u>		<u>Principal activities</u>
			<u>Direct</u>	<u>Indirect</u>	
Merit Sign Investments Limited	Hong Kong	HK\$397,690	100%	-	Investment holding
Gonga	The PRC	RMB118,000,000	-	100%	Development and operation of Swallow Gully

**33. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements were approved and authorised for issue by the Director on 23 November 2018.

----- End of Notes -----

**TOTAL WONDER ENTERPRISES LIMITED**

**REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**ZHONGHUI ANDA CPA LIMITED**  
**中匯安達會計師事務所有限公司**

**TOTAL WONDER ENTERPRISES LIMITED**  
REPORTS AND CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

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**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF  
TOTAL WONDER ENTERPRISES LIMITED**  
*(Incorporated in the British Virgin Islands with limited liability)*

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**Opinion**

We have audited the consolidated financial statements of Total Wonder Enterprises Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 3 to 24, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

**Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibilities of Directors for the Consolidated Financial Statements**

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE SHAREHOLDERS OF**  
**TOTAL WONDER ENTERPRISES LIMITED**  
*(Incorporated in the British Virgin Islands with limited liability)*

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**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/>

This description forms part of our auditor's report.



**ZHONGHUI ANDA CPA Limited**  
Certified Public Accountants  
**Sze Lin Tang**  
Audit Engagement Director  
Practising Certificate Number P03614  
Hong Kong, 23 November 2018

**TOTAL WONDER ENTERPRISES LIMITED**

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

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	<u>2016</u> CAD	<u>2015</u> CAD
<b>Revenue</b>	6	1,647,025	1,060,314
Cost of sales/services		<u>(2,721,094)</u>	<u>(1,887,476)</u>
Gross loss		(1,074,069)	(827,162)
Other income and other gains/(losses), net	7	528,328	(1,677,402)
Selling and distribution expenses		(1,457,367)	(647,503)
Administrative and other operating expenses		<u>(1,803,974)</u>	<u>(3,143,157)</u>
<b>Loss from operations</b>		(3,807,082)	(6,295,224)
Finance costs	8	<u>(102,147)</u>	<u>(99,788)</u>
<b>Loss before tax</b>		(3,909,229)	(6,395,012)
Income tax credit	9	<u>46,513</u>	<u>41,602</u>
<b>Loss for the year</b>	10	<u>(3,862,716)</u>	<u>(6,353,410)</u>
<b>Other comprehensive (loss)/income:</b>			
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>(4,893,588)</u>	<u>6,028,852</u>
<i>Items that will not be reclassified to profit or loss:</i>			
Gain/(loss) on revaluation of property, plant and equipment		1,472,915	(485,317)
Reversal of deferred tax liability on revaluation and impairment loss of property, plant and equipment		1,167,680	121,329
Impairment loss of property, plant and equipment		<u>(6,143,637)</u>	<u>-</u>
		<u>(3,503,042)</u>	<u>(363,988)</u>
<b>Other comprehensive (loss)/income for the year</b>		<u>(8,396,630)</u>	<u>5,664,864</u>
<b>Total comprehensive loss for the year</b>		<u><u>(12,259,346)</u></u>	<u><u>(688,546)</u></u>

**TOTAL WONDER ENTERPRISES LIMITED**

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	Notes	<u>2016</u> CAD	<u>2015</u> CAD
<b>Non-current assets</b>			
Property, plant and equipment	12	19,582,723	27,604,790
Prepaid land lease payments	13	307,865	331,501
Intangible assets arising from a service concession arrangement	14	8,063,027	8,420,861
Intangible assets	15	12,474	23,569
Advances to a local authority	16	1,904,130	1,979,855
		<u>29,870,219</u>	<u>38,360,576</u>
<b>Current assets</b>			
Inventories	17	30,085	171,353
Trade and other receivables	18	111,118	409,210
Prepaid land lease payments	13	10,017	10,643
Amount due from a related party	19	-	966
Bank and cash balances	20	7,057,529	11,739,516
		<u>7,208,749</u>	<u>12,331,688</u>
<b>Current liabilities</b>			
Other payables	21	1,675,436	1,188,668
Amount due to immediate holding company	22	-	323,593
Amounts due to related parties	22	201,277	111,602
		<u>1,876,713</u>	<u>1,623,863</u>
<b>Net current assets</b>		<u>5,332,036</u>	<u>10,707,825</u>
<b>Total assets less current liabilities</b>		<u>35,202,255</u>	<u>49,068,401</u>

**TOTAL WONDER ENTERPRISES LIMITED**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

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	Notes	<u>2016</u> CAD	<u>2015</u> CAD
<b>Non-current liabilities</b>			
Deferred tax liability	23	-	1,535,001
Loan from a related party	24	<u>2,075,712</u>	<u>2,147,511</u>
		<u>2,075,712</u>	<u>3,682,512</u>
<b>NET ASSETS</b>			
		<u>33,126,543</u>	<u>45,385,889</u>
<b>Capital and reserves</b>			
Share capital	25	13,551,884	13,551,884
Reserves		<u>19,574,659</u>	<u>31,834,005</u>
<b>TOTAL EQUITY</b>		<u>33,126,543</u>	<u>45,385,889</u>

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The consolidated financial statements on pages 3 to 24 were approved and authorised for issue by the sole director on 23 November 2018 and are signed on its behalf by:



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Sole Director  
Zhao Yuxiu

**TOTAL WONDER ENTERPRISES LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Share capital CAD	Capital reserve CAD (Note)	Other reserve CAD	Revaluation reserve CAD	Exchange reserve CAD	Accumulated losses CAD	Total CAD
At 1 January 2015	51,884	2,999,463	34,398,171	3,867,030	5,144,359	(13,886,472)	32,574,435
Issuance of shares	13,500,000	-	-	-	-	-	13,500,000
Total comprehensive loss for the year	-	-	-	(363,988)	6,028,852	(6,353,410)	(688,546)
At 31 December 2015	<u>13,551,884</u>	<u>2,999,463</u>	<u>34,398,171</u>	<u>3,503,042</u>	<u>11,173,211</u>	<u>(20,239,882)</u>	<u>45,385,889</u>
At 1 January 2016	13,551,884	2,999,463	34,398,171	3,503,042	11,173,211	(20,239,882)	45,385,889
Total comprehensive loss for the year	-	-	-	(3,503,042)	(4,893,588)	(3,862,716)	(12,259,346)
At 31 December 2016	<u>13,551,884</u>	<u>2,999,463</u>	<u>34,398,171</u>	<u>-</u>	<u>6,279,623</u>	<u>(24,102,598)</u>	<u>33,126,543</u>

Note:

The amount represents the loans waived by a shareholder of Merit Sign Investments Limited, a subsidiary of the Company, and recognised as deemed contribution in previous years.

**TOTAL WONDER ENTERPRISES LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	<u>2016</u> CAD	<u>2015</u> CAD
<b>Cash flows from operating activities</b>		
Loss before tax	(3,909,229)	(6,395,012)
Adjustments for:		
Finance costs	102,147	99,788
Depreciation of property, plant and equipment	670,225	614,734
Bad debts written off	-	74,575
Amortisation of intangible assets arising from a service concession arrangement	266,196	256,893
Amortisation of prepaid land lease payments	10,310	10,299
Amortisation of intangible assets	9,089	10,419
Loss on disposal of property, plant and equipment	12,037	4,501
Bank interest income	(24,072)	(9,808)
Provision of construction services under a service concession arrangement	(730,811)	(173,065)
Imputed interest income on advances to a local authority	(117,890)	(117,863)
Exchange (gains)/losses, net	<u>(376,699)</u>	<u>1,806,110</u>
Operating cash flows before working capital changes	(4,088,697)	(3,818,429)
Change in inventories	124,801	(13,746)
Change in trade and other receivables	258,768	(128,336)
Change in other payables	<u>517,024</u>	<u>(466,718)</u>
<b>Net cash used in operating activities</b>	<u>(3,188,104)</u>	<u>(4,427,229)</u>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(808,116)	(376,548)
Interest received	24,072	9,808
<b>Net cash used in investing activities</b>	<u>(784,044)</u>	<u>(366,740)</u>
<b>Cash flows from financing activities</b>		
Proceed from issuance of shares	-	13,500,000
(Repayment to)/advance from immediate holding company	(307,897)	300,726
(Repayment to)/advance from related parties	(9,445)	9,081
<b>Net cash (used in)/generated from financing activities</b>	<u>(317,342)</u>	<u>13,809,807</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(4,289,490)	9,015,838
Effects of foreign exchange rate changes	(392,497)	447,830
Cash and cash equivalents at beginning of year	<u>11,739,516</u>	<u>2,275,848</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>7,057,529</u></u>	<u><u>11,739,516</u></u>
<b>Analysis of cash and cash equivalents</b>		
Bank and cash balances	<u><u>7,057,529</u></u>	<u><u>11,739,516</u></u>

**TOTAL WONDER ENTERPRISES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

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1. GENERAL INFORMATION

Total Wonder Enterprises Limited (the "Company") was incorporated in the British Virgin Islands (the "BVI") on 21 November 2013 with limited liability under the BVI Companies Act. The address of its registered office is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The Company and its subsidiaries are collectively referred to as the "Group".

The Company is an investment holding company. The Group's business was developing and operating Swallow Gully Scenic Area ("Swallow Gully"), a large scale tourist attraction site in Sichuan Province, the People's Republic of China (the "PRC").

In the opinion of the directors of the Company (the "Directors"), as at 31 December 2016, Alpha Peak Leisure Inc., a company incorporated in British Columbia of Canada with limited liability under the British Columbia Business Corporation Act, is the immediate holding company of the Company.

The consolidated financial statements are presented in Canadian dollars ("CAD"), which is the Company's functional currency and the Group's presentation currency.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board that are relevant to its operations and effective for its accounting year beginning on 1 January 2016. IFRSs comprise International Financial Reporting Standards; International Accounting Standards ("IAS"); and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior year.

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with IFRSs and under the historical cost convention, as modified by the revaluation of attractions and improvement and buildings included in property, plant and equipment which are carried at their fair values less costs to sell.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the Directors to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 4.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**TOTAL WONDER ENTERPRISES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

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Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in CAD, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(c) Translation on consolidation

The results and financial position of all the Group's entities that have a functional currency different from the Group's presentation currency are translated into the Group's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the exchange reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment

Property, plant and equipment are stated at cost or revalued amount less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Revaluation increases of attractions and improvement and buildings are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the revaluation reserve are charged against the revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of a revalued attractions and improvement and buildings, the attributable revaluation increases remaining in the revaluation reserve is transferred directly to retained profits.

**TOTAL WONDER ENTERPRISES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

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Depreciation of property, plant and equipment is calculated at rates sufficient to write off their costs less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Attractions and improvement	10-40 years
Buildings	37-40 years
Motor vehicles	4 years
Others	3-5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

#### Intangible assets

##### *Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The intangible assets acquired separately are amortised on a straight-line basis over the following useful lives:

Hot spring prospecting rights	10 years
Trademark	10 years
Patent	10 years
Others	10 years

##### *Intangible assets arising from a service concession arrangement*

When the Group has a right to charge for usage of concession infrastructure as a consideration for providing construction service in a service concession arrangement, it recognises an intangible asset at fair value upon initial recognition. The intangible asset is carried at cost less accumulated amortisation and any accumulated impairment loss, if any. Amortisation is recognised on a straight-line basis over the period which commence from the date when the part of the tourist attraction site is available for use.

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

#### Operating leases

##### *The Group as lessee*

Leases that do not substantially transfer all the risks and rewards of ownership of assets to the Group are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in-first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

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Construction contracts

Where the outcome of a construction contract including construction of the infrastructure under a service concession arrangement can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the recoverable amount of the receivables can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

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Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

*Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

*Other payables*

Other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

- (a) Revenue from sales of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.
- (b) The Group provides construction services in exchange for concession intangible assets. The revenue from construction services is recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date on the estimated total contract costs.
- (c) Revenue from admission ticket sales and attraction ticket sales is recognised when the tickets are sold and delivered. Admission tickets allow visitors to enter into the tourist site while attraction tickets grant the rights to visitors to enjoy the build-in facilities in the tourist spot.
- (d) Interest income is recognised on a time-proportion basis using the effective interest method.

Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(c) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

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Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Related parties

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Company or of a parent of the Company.

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(b) An entity is related to the Group (reporting entity) if any of the following conditions applies:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

Impairment of assets

At the end of each reporting period, the 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 the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the fair value less costs of disposal. Where the fair value less costs of disposal are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of fair value less costs of disposal, a material impairment loss may arise.

(c) Impairment assessment of intangible assets arising from a service concession arrangement

At the end of the reporting period, management would estimate future cash flows generated by the concession intangible assets and determine whether there is any indication on impairment. If such indication exists, the recoverable amount of the concession intangible assets would be estimated and the carrying amount of concession intangible assets would be written down to the recoverable amount and the amount of the write-down would be charged against the profit and loss.

(d) Valuation of property, plant and equipment

Attractions and improvement as well as buildings included in the property, plant and equipment are revalued based on the valuation performed by independent professional valuers. The determination of the valuation involves certain assumptions of market conditions which are set out in note 12. In relying on the valuation report, management has exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions. Changes to these assumptions would result in changes in the valuation of the Group's property, plant and equipment and the corresponding adjustments to the amount of gain or loss arising on the revaluation of property, plant and equipment would be recognised in other comprehensive income.

(e) Estimated impairment of advances to a local authority

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2016, the carrying amount of advances to a local authority is CAD1,904,130 (2015: CAD1,979,855) and no impairment on advances to a local authority has been made for the year (2015: Nil).

(f) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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#### 5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

##### (a) Foreign currency risk

The Group has certain exposure to foreign currency risk as some of its business transactions, assets and liabilities are not principally denominated in the functional currencies of the Group's entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2016, if CAD had weakened/strengthened by 5% against Hong Kong dollars and Renminbi ("RMB") with all other variables held constant, the Group's loss after tax for the year would have been approximately CAD46,000 (2015: CAD6,000) lower/higher (2015: higher/lower), arising mainly as a result of the foreign exchange differences on translation of bank and cash balances and loan from a related party.

##### (b) Credit risk

The carrying amount of bank and cash balances, trade and other receivables, amount due from a related party and advances to a local authority included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group's credit risk is primarily attributable to its advance to a local authority and trade and other receivables. In order to minimise credit risk, the Directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the Directors review the recoverable amount of each individual debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings.

The credit risk on advances to a local authority is limited because the local authority is state owned.

##### (c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 3 months CAD	Between 3 months to 1 year CAD	Between 1 to 5 years CAD	Total undiscounted cash flow CAD	Carrying amounts CAD
<u>At 31 December 2016</u>					
Other payables	1,336,707	-	-	1,336,707	1,336,707
Amounts due to related parties	201,277	-	-	201,277	201,277
Loan from a related party	25,947	77,839	2,179,498	2,283,284	2,075,712
	<u>1,563,931</u>	<u>77,839</u>	<u>2,179,498</u>	<u>3,821,268</u>	<u>3,613,696</u>
<u>At 31 December 2015</u>					
Other payables	905,961	-	-	905,961	905,961
Amount due to immediate holding company	323,593	-	-	323,593	323,593
Amount due to related parties	111,602	-	-	111,602	111,602
Loan from a related party	26,844	53,688	2,362,262	2,469,638	2,147,511
	<u>1,368,000</u>	<u>53,688</u>	<u>2,362,262</u>	<u>3,810,794</u>	<u>3,488,667</u>

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(d) Interest rate risk

The Group's exposure to interest rate risk arises from its bank deposits and loan from a related party. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

At 31 December 2016, if the interest rate had been increased/decreased by 100 basis points and other variables were held constant, the Group's loss after tax for the year would have been decreased/increased by approximately CAD50,000 (2015: CAD96,000).

(e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

(f) Categories of financial instruments

	<u>2016</u>	<u>2015</u>
	CAD	CAD
<u>Financial assets</u>		
Loans and receivables (including cash and cash equivalents)	<u>8,995,169</u>	<u>13,722,472</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost	<u>3,613,696</u>	<u>3,488,667</u>

6. REVENUE

	<u>2016</u>	<u>2015</u>
	CAD	CAD
Provision of construction services under a service concession arrangement	730,811	173,065
Admission ticket sales	347,806	321,697
Attraction ticket sales	564,893	552,903
Others	3,515	12,649
	<u>1,647,025</u>	<u>1,060,314</u>

7. OTHER INCOME AND OTHER GAINS/(LOSSES), NET

	<u>2016</u>	<u>2015</u>
	CAD	CAD
Imputed interest income on advances to a local authority (Note 16)	117,890	117,863
Bank interest income	24,072	9,808
Sundry income	9,667	1,037
Exchange gains/(losses), net	376,699	(1,806,110)
	<u>528,328</u>	<u>(1,677,402)</u>

8. FINANCE COSTS

	<u>2016</u>	<u>2015</u>
	CAD	CAD
Interests on loan from a related party	<u>102,147</u>	<u>99,788</u>

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9. INCOME TAX CREDIT

	<u>2016</u> CAD	<u>2015</u> CAD
Deferred tax (Note 23)	<u>(46,513)</u>	<u>(41,602)</u>

No provision for taxation in Hong Kong has been made as the Group did not have any assessable profit arising from Hong Kong for both years.

No provision for the PRC Enterprise Income Tax is required since the Group has no assessable profit for both years.

The reconciliation between income tax credit and loss before tax is as follows:

	<u>2016</u> CAD	<u>2015</u> CAD
Loss before tax	<u>(3,909,229)</u>	<u>(6,395,012)</u>
Tax at the PRC Enterprise Income Tax rate of 25%	(977,307)	(1,598,753)
Tax effect of expenses not deductible for tax purpose	245,789	763,909
Tax effect of income not taxable for tax purpose	(80,425)	(62,264)
Tax effect of tax losses not recognised	692,350	645,592
Effect of different tax rates of subsidiaries operating in other jurisdictions	73,080	209,914
Income tax credit	<u>(46,513)</u>	<u>(41,602)</u>

At the end of the reporting period, the Group has unused tax losses of approximately CAD16,170,000 (2015: CAD12,986,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Unrecognised tax losses of approximately CAD15,260,000 will expire from 2017 to 2021 (2015: CAD12,572,000 will expire from 2016 to 2020) and approximately CAD910,000 (2015: CAD338,000) may be carried forward indefinitely, subject to final determination by tax authorities.

10. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging the following:

	<u>2016</u> CAD	<u>2015</u> CAD
Auditor's remuneration	148,143	136,377
Contract cost recognised for tourist attraction business	730,811	173,065
Depreciation of property, plant and equipment	670,225	614,734
Amortisation of intangible assets	9,089	10,419
Amortisation of intangible assets arising from a service concession arrangement	266,196	256,893
Amortisation of prepaid land lease payments	10,310	10,299
Loss on disposal of property, plant and equipment	12,037	4,501
Bad debts written off	-	74,575
Operating lease expenses in respect of office premises	114,525	84,510
Staff costs (including directors' remuneration):		
Salaries, bonuses and allowances	1,307,728	1,087,342
Retirement benefit scheme contributions	177,697	184,783
	<u>1,485,425</u>	<u>1,272,125</u>

11. DIVIDENDS

The Directors do not recommend the payment of any dividend for the year ended 31 December 2016 (2015: Nil).

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12. PROPERTY, PLANT AND EQUIPMENT

	<u>Attractions and improvement</u>	<u>Buildings</u>	<u>Motor vehicles</u>	<u>Others</u>	<u>Total</u>
	CAD	CAD	CAD	CAD	CAD
<u>Cost or valuation</u>					
At 1 January 2015	20,881,343	3,393,958	1,522,690	-	25,797,991
Additions	672,713	-	-	93,877	766,590
Disposals	-	-	(10,571)	-	(10,571)
Exchange realignment	2,944,753	488,729	192,886	3,136	3,629,504
At 31 December 2015 and 1 January 2016	24,498,809	3,882,687	1,705,005	97,013	30,183,514
Additions	643,981	43,415	143,982	33,142	864,520
Disposals	-	-	(240,752)	-	(240,752)
Impairment loss recognised in other comprehensive income	(2,801,169)	(1,037,468)	-	-	(3,838,637)
Exchange realignment	(2,748,444)	(617,088)	(161,093)	(7,381)	(3,534,006)
At 31 December 2016	19,593,177	2,271,546	1,447,142	122,774	23,434,639
Comprising:					
At 31 December 2016					
At cost	-	-	1,447,142	122,774	1,569,916
At valuation	19,593,177	2,271,546	-	-	21,864,723
	19,593,177	2,271,546	1,447,142	122,774	23,434,639
At 31 December 2015					
At cost	-	-	1,705,005	97,013	1,802,018
At valuation	24,498,809	3,882,687	-	-	28,381,496
	24,498,809	3,882,687	1,705,005	97,013	30,183,514
<u>Accumulated depreciation and impairment</u>					
At 1 January 2015	89,651	36,280	1,265,766	-	1,391,697
Charge for the year	450,593	69,320	76,206	18,615	614,734
Adjustment for revaluation	418,924	66,393	-	-	485,317
Eliminated on disposals	-	-	(6,070)	-	(6,070)
Exchange realignment	(62,678)	(7,874)	162,977	621	93,046
At 31 December 2015 and 1 January 2016	896,490	164,119	1,498,879	19,236	2,578,724
Charge for the year	476,981	66,648	83,463	43,133	670,225
Adjustment for revaluation	(1,271,415)	(201,500)	-	-	(1,472,915)
Eliminated on disposals	-	-	(228,715)	-	(228,715)
Impairment loss recognised in other comprehensive income	1,982,885	322,115	-	-	2,305,000
Exchange realignment	121,349	20,269	(139,904)	(2,117)	(403)
At 31 December 2016	2,206,290	371,651	1,213,723	60,252	3,851,916
<u>Carrying amounts</u>					
At 31 December 2016	17,386,887	1,899,895	233,419	62,522	19,582,723
At 31 December 2015	23,602,319	3,718,568	206,126	77,777	27,604,790

Attractions and improvement and buildings of the Group were revalued on 31 December 2016 at a total carrying amount of CAD19,286,782 (2015: CAD27,320,887). In estimating the fair values of the attractions and improvement and buildings, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent professional qualified valuers to perform valuation. Management works closely with the independent professional qualified valuers to establish the appropriate valuation technique and inputs to the model. Management reports the findings and explains the cause of fluctuations in the fair values of the attractions and improvement and buildings, if any.

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Attractions and improvement and buildings of the Group were revalued by Vigers Appraisal & Consulting Limited ("Vigers") on 31 December 2016 and 2015 on the depreciated replacement cost approach that reflects the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence. There has been no change to the valuation technique during the year. Vigers is not a related party of the Group.

*Impairment loss recognised during the year ended 31 December 2016:*

As a result of the unfavourable performance of Gongga Terraferma Limited ("Gongga"), the management conducted impairment assessments of the property, plant and equipment of Gongga individually. Gongga is considered as a cash-generating unit for the purpose of the impairment test. A cash-generating unit is considered to be impaired when its recoverable amount declines below its carrying amount.

The recoverable amount of Gongga as at 31 December 2016 was determined based on value-in-use calculation and certain key assumptions. Value-in-use calculation used cash flow projections based on financial budgets approved by the management covering a five-year period. Discount rate used for the value-in-use calculation is 18.06%. Cash flow beyond the five-year period was extrapolated using a growth rate of 5.1%. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include gross budgeted sales and gross margin. Such estimation was based on the management's expectations for the market development.

During the year ended 31 December 2016, an impairment loss of CAD6,143,637 (2015: Nil) was recognised in other comprehensive income, of which (i) CAD4,784,054 (2015: Nil) was allocated to attractions and improvements; and (ii) CAD1,359,583 (2015: Nil) was allocated to buildings on a pro rata basis with reference to their respective carrying amounts before impairment, and reduced the corresponding revaluation surplus.

13. PREPAID LAND LEASE PAYMENTS

	<u>2016</u>	<u>2015</u>
	CAD	CAD
The Group's prepaid lease payments comprises:		
Leasehold interest in land in the PRC	<u>317,882</u>	<u>342,144</u>
Analysed for reporting purpose as:		
Current assets	10,017	10,643
Non-current assets	<u>307,865</u>	<u>331,501</u>
	<u>317,882</u>	<u>342,144</u>

The Group's prepaid land lease payments represent the payment for land use right situated in the PRC.

14. INTANGIBLE ASSETS ARISING FROM A SERVICE CONCESSION ARRANGEMENT

	CAD
<u>Cost</u>	
At 1 January 2015	8,124,432
Additions	173,065
Exchange realignment	<u>1,036,824</u>
At 31 December 2015 and 1 January 2016	9,334,321
Additions	730,811
Exchange realignment	<u>(917,808)</u>
At 31 December 2016	<u>9,147,324</u>
<u>Accumulated amortisation and impairment</u>	
At 1 January 2015	575,013
Amortisation for the year	256,893
Exchange realignment	<u>81,554</u>
At 31 December 2015 and 1 January 2016	913,460
Amortisation for the year	266,196
Exchange realignment	<u>(95,359)</u>
At 31 December 2016	<u>1,084,297</u>
<u>Carrying amounts</u>	
At 31 December 2016	<u>8,063,027</u>
At 31 December 2015	<u>8,420,861</u>

**TOTAL WONDER ENTERPRISES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

Gonga entered into a service concession arrangement with Ganzi Hailuogou Attractions Authority ("Grantor"), a local authority in the PRC, in 2007 in respect of the construction and operation of tourist attraction business in Sichuan Province, the PRC. The service concession period is 40 years.

Gonga acted as an operator in the service concession arrangement to construct the tourist attraction and to operate and maintain the tourist attraction at a specified level of serviceability on behalf of the local authority over the service concession period on a build-operate-transfer ("BOT") basis. The tourist attraction on a BOT basis mainly includes the basic infrastructure in the tourist attraction such as the pavements, electricity supply, restaurants etc.

Under the service concession arrangement contract, the Group can share 80% of the admission ticket sales and entitle to the entire amount of attraction ticket sales with the remaining 20% admission ticket sales shared by the Grantor. During the operation phase of the service concession period, the Group is not entitled to receive guaranteed receipts of tourist operation from the Grantor.

Intangible assets arising from a service concession arrangement represent costs incurred by the Group for the construction services rendered under the service concession arrangement for the tourist attraction in the PRC on a BOT basis. Revenue and costs relating to the construction phase of the contract are accounted for in accordance with IAS 11 "Construction Contracts" which the revenue on construction is recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date to the estimated total contract costs.

Revenue and costs relating to the operation phase of the contract are accounted for in accordance with IAS 18 "Revenue" which revenue is measured at the fair value of the consideration received or receivable.

During the year ended 31 December 2016, the Group recognised revenue from construction services in relation to the tourist attraction under BOT of CAD730,811 (2015: CAD173,065) by reference to the stage of completion of the construction work.

The intangible assets arising from a service concession arrangement has finite useful lives and amortised over the period which commence from the date when the part of the tourist attraction site is available for use, i.e. 36 to 40 years, using a straight-line method.

15. INTANGIBLE ASSETS

	Hot spring prospecting rights	Trademark	Patent	Others	Total
	CAD	CAD	CAD	CAD	CAD
<u>Cost</u>					
At 1 January 2015	62,297	10,425	626	22,198	95,546
Exchange realignment	7,906	1,324	79	2,817	12,126
At 31 December 2015 and 1 January 2016	70,203	11,749	705	25,015	107,672
Disposals	-	(318)	-	-	(318)
Exchange realignment	(6,745)	(1,120)	(68)	(2,404)	(10,337)
At 31 December 2016	63,458	10,311	637	22,611	97,017
<u>Accumulated amortisation and impairment</u>					
At 1 January 2015	47,048	7,218	328	10,483	65,077
Amortisation for the year	6,793	1,137	68	2,421	10,419
Exchange realignment	6,198	953	45	1,411	8,607
At 31 December 2015 and 1 January 2016	60,039	9,308	441	14,315	84,103
Amortisation for the year	6,112	584	66	2,327	9,089
Eliminated on disposals	-	(318)	-	-	(318)
Exchange realignment	(5,944)	(901)	(45)	(1,441)	(8,331)
At 31 December 2016	60,207	8,673	462	15,201	84,543
<u>Carrying amounts</u>					
At 31 December 2016	3,251	1,638	175	7,410	12,474
At 31 December 2015	10,164	2,441	264	10,700	23,569

**TOTAL WONDER ENTERPRISES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

16. ADVANCES TO A LOCAL AUTHORITY

The amount represents the funds advanced to Grantor in relation to the construction of the infrastructure outside the tourist attraction site.

During the year ended 31 December 2016, imputed interest income of CAD117,890 (2015: CAD117,863) has been recognised and included in "Other income". Imputed interest rate of 6.4% per annum is applied.

The advances are interest-free and unsecured. In the opinion of the Directors, the advances will not be settled in the coming twelve months from the end of the reporting period and is therefore classified as non-current assets.

17. INVENTORIES

	<u>2016</u>	<u>2015</u>
	CAD	CAD
Consumable goods	2,901	124,981
Souvenirs	27,184	46,372
	<u>30,085</u>	<u>171,353</u>

18. TRADE AND OTHER RECEIVABLES

	<u>2016</u>	<u>2015</u>
	CAD	CAD
Trade receivables	9,878	2,135
Prepayments	77,608	407,075
Other receivables	23,632	-
	<u>111,118</u>	<u>409,210</u>

The Group's admission tickets and attraction tickets sales are largely operated on cash on delivery or due immediately from date of billing, except for a credit term of 30 days is granted to travel agents.

Before granting credit period to any new travel agent, the Group has assessed the credit quality of each potential travel agent and defined credit rating and limit for each travel agent. In addition, the Group has reviewed the repayment history of receivables by each travel agent with reference to the payment terms stated in contracts to determine the recoverability of receivables.

Included in the Group's trade receivables are debtors with aggregate carrying amount of CAD9,878 (2015: CAD2,135) which are past due by 91 to 180 days at the end of the reporting period for which the Group has not provided for impairment loss as they had been substantially settled subsequent to the end of the reporting period or there was no historical default of payments by the respective travel agents. The Group does not hold any collateral over these balances.

19. AMOUNT DUE FROM A RELATED PARTY

The amount was unsecured, interest-free and repayable on demand.

20. BANK AND CASH BALANCES

As at 31 December 2016, the bank and cash balances of the Group denominated in RMB amounted to CAD2,158,856 (2015: CAD1,000,596). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

21. OTHER PAYABLES

	<u>2016</u>	<u>2015</u>
	CAD	CAD
Construction expenses	439,093	433,790
Admission ticket sales proceeds entitled by a local authority	338,729	282,707
Legal and professional fee	172,976	220,514
Advertising expenses	454,373	32,463
Staff costs	62,584	66,427
Sub-contracting expenses	9,654	18,435
Others	198,027	134,332
	<u>1,675,436</u>	<u>1,188,668</u>

22. AMOUNTS DUE TO IMMEDIATE HOLDING COMPANY/RELATED PARTIES

The amounts due were unsecured, interest-free and repayable on demand.

**TOTAL WONDER ENTERPRISES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

23. DEFERRED TAX LIABILITY

At the end of the reporting period, deferred tax liability has been recognised and movement thereon during the year is as follows:

	Revaluation of property, plant and equipment CAD
At 1 January 2015	1,421,400
Charged to equity for the year	(121,329)
Credited to profit or loss (Note 9)	(41,602)
Exchange realignment	<u>276,532</u>
At 31 December 2015 and 1 January 2016	1,535,001
Charged to equity for the year	(1,167,680)
Credited to profit or loss (Note 9)	(46,513)
Exchange realignment	<u>(320,808)</u>
At 31 December 2016	<u>-</u>

24. LOAN FROM A RELATED PARTY

Loan from a related party is unsecured, interest bearing at Hong Kong Prime Rate of 5% (2015: 5%) per annum with maturity on 31 December 2018.

The amount due to a related party of CAD201,277 (2015: CAD100,864) represents interest payable arising from a loan from a related party. The amount due is unsecured, interest-free and repayable on demand.

25. SHARE CAPITAL

**Issued and fully paid**

	Number of ordinary shares	Share capital HK\$	Equivalent share capital CAD
As at 1 January 2015	39,769	397,690	51,884
Issuance of ordinary shares	3	78,540,880	13,500,000
As at 31 December 2015, 1 January 2016 and 31 December 2016	<u>39,772</u>	<u>78,938,570</u>	<u>13,551,884</u>

26. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that group entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall capital management strategy remains unchanged from prior year.

Management reviews the capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with the capital. Based on recommendations of management, the Group will balance its overall capital structure through new share issues as well as issue of new debt.

27. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2015, pursuant to an agreement dated 31 December 2015 entered between the Group, a director and a related party, amount due from a director amounted to RMB2,392,336 (equivalent to CAD511,030) were offset with part of the amount due to a shareholder.

**TOTAL WONDER ENTERPRISES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

**28. OPERATING LEASE COMMITMENTS**

*As lessee*

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases in respect of office premises are payable as follows:

	<u>2016</u> CAD	<u>2015</u> CAD
Within one year	73,088	119,967
In the second to fifth years, inclusive	<u>26,643</u>	<u>108,076</u>
	<u>99,731</u>	<u>228,043</u>

**29. RELATED PARTY TRANSACTIONS**

In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, during the year, the Group had the following transactions with its related party:

	<u>2016</u> CAD	<u>2015</u> CAD
Management fee payable to a related party	<u>40,867</u>	<u>19,956</u>

**30. PARTICULARS OF SUBSIDIARIES OF THE COMPANY**

Particulars of the Company's subsidiaries as at 31 December 2016 are as follows:

<u>Name</u>	<u>Place of incorporation</u>	<u>Issued and paid-up capital</u>	<u>Percentage of the ownership interest/voting power</u>		<u>Principal activities</u>
			<u>Direct</u>	<u>Indirect</u>	
Merit Sign Investments Limited	Hong Kong	HK\$397,690	100%	-	Investment holding
Gonga	The PRC	RMB118,000,000	-	100%	Development and operation of Swallow Gully

**31. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 23 November 2018.

----- End of Notes -----

**TOTAL WONDER ENTERPRISES LIMITED**

**Interim Condensed Consolidated Financial Statements**

As of and nine months ended September 30, 2018

(Expressed in Canadian dollars)

(Unaudited)

**TOTAL WONDER ENTERPRISES LIMITED**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018**

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**NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

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Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim condensed consolidated financial statements, the statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The Group's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of financial statements by an entity's auditor.

Management has prepared the information and representations in this interim report. The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgment. The financial information presented throughout this report is consistent with the data presented in the interim condensed consolidated financial statements.

The Group maintains adequate systems of internal accounting and administrative controls, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that relevant and reliable financial information is produced.

**"Liu Bing"**

\_\_\_\_\_  
Chief Financial Officer

Date

**TOTAL WONDER ENTERPRISES LIMITED**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME**

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

	Notes	<u>For the nine months ended Sep 30, 2018</u> CAD	<u>For the year ended Dec 31, 2017</u> CAD
<b>Revenue</b>	8	375,363	1,391,549
Cost of sales/services		<u>(451,049)</u>	<u>(2,231,454)</u>
Gross loss		(75,686)	(839,905)
Other income	9	178,232	126,130
Finance costs		(72,316)	(99,604)
Selling and distribution expenses		(575,401)	(880,177)
Impairment loss of intangible assets arising from a service concession arrangement		-	(7,770,223)
Write-off of property, plant and equipment	11	-	(7,471,811)
Impairment loss of property, plant and equipment	11	-	(10,163,037)
Other gain	9	56,064	181,863
Administrative expenses		<u>(799,519)</u>	<u>(2,483,632)</u>
<b>Loss before tax</b>		<u>(1,288,626)</u>	<u>(29,400,396)</u>
<b>Loss for the year</b>		<u>(1,288,626)</u>	<u>(29,400,396)</u>
<b>Other comprehensive income/(loss):</b>			
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>4,145</u>	<u>210,726</u>
<b>Other comprehensive income/(loss) for the year</b>		<u>4,145</u>	<u>210,726</u>
<b>Total comprehensive loss for the year</b>		<u>(1,284,481)</u>	<u>(29,189,670)</u>

**TOTAL WONDER ENTERPRISES LIMITED**

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2018

		<u>September 30,</u> <u>2018</u> CAD	<u>December 31,</u> <u>2017</u> CAD
	Notes		
<b>Non-current assets</b>			
Property, plant and equipment	11	1,740,050	1,820,564
Prepaid land lease payments		293,983	296,600
Intangible assets		4,898	8,003
Advances to a local authority	13	<u>2,092,809</u>	<u>2,014,733</u>
		<u>4,131,740</u>	<u>4,139,900</u>
<b>Current assets</b>			
Inventories	14	25,045	26,334
Trade and other receivables	15	155,750	122,584
Amount due from immediate holding company	19	1,203,021	-
Structured deposits	16	1,715,200	2,403,430
Bank and cash balances	17	<u>403,120</u>	<u>2,055,055</u>
		<u>3,502,136</u>	<u>4,607,403</u>
<b>Current liabilities</b>			
Other payables	18	1,138,118	1,997,627
Amount due to immediate holding company	19	-	835,898
Amounts due to related parties	19	51,302	48,216
Loans from related parties	20	<u>2,052,064</u>	<u>1,928,689</u>
		<u>3,241,484</u>	<u>4,810,430</u>
<b>Net current (liabilities)/assets</b>		<u>260,652</u>	<u>(203,027)</u>
<b>Total assets less current liabilities</b>		<u>4,392,392</u>	<u>3,936,873</u>
<b>NET ASSETS</b>		<u>4,392,392</u>	<u>3,936,873</u>
<b>Capital and reserves</b>			
Share capital	21	15,291,884	13,551,884
Reserves		<u>(10,899,492)</u>	<u>(9,615,011)</u>
<b>TOTAL EQUITY</b>		<u>4,392,392</u>	<u>3,936,873</u>

The consolidated financial statements on pages 3 to 21 were approved and authorised for issue by the sole director on 18 December 2018 and are signed on its behalf by:

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Sole Director  
Zhao Yuxiu

**TOTAL WONDER ENTERPRISES LIMITED**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

	<u>Share capital</u> CAD	<u>Capital reserve</u> CAD (Note)	<u>Other reserve</u> CAD	<u>Exchange reserve</u> CAD	<u>Accumulated losses</u> CAD	<u>Total</u> CAD
At 1 January 2017	13,551,884	2,999,463	34,398,171	6,279,623	(24,102,598)	33,126,543
Total comprehensive loss for the year	-	-	-	-	(29,400,396)	(29,400,396)
Exchange difference arising on translation of foreign operation	-	-	-	210,726	-	210,726
At 31 December 2017	<u>13,551,884</u>	<u>2,999,463</u>	<u>34,398,171</u>	<u>6,490,349</u>	<u>(53,502,994)</u>	<u>3,936,873</u>
At 1 January 2018	13,551,884	2,999,463	34,398,171	6,490,349	(53,502,994)	3,936,873
Loss for the period	-	-	-	-	(1,288,626)	(1,288,626)
Exchange difference arising on translation of foreign operation	-	-	-	4,145	-	4,145
Total comprehensive loss for the period	-	-	-	4,145	(1,288,626)	(1,284,481)
Common shares issued	1,740,000	-	-	-	-	1,740,000
Forfeiture of share options	-	-	(544,013)	-	544,013	-
At 30 September 2018	<u>15,291,884</u>	<u>2,999,463</u>	<u>33,854,158</u>	<u>6,494,494</u>	<u>(54,247,607)</u>	<u>4,392,392</u>

Note:

The amount represents the loans waived by a shareholder in previous years, and recognised as deemed contribution in previous years.

**TOTAL WONDER ENTERPRISES LIMITED**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

	<u>For the nine months ended Sep 30, 2018</u> CAD	<u>For the year ended Dec 31, 2017</u> CAD
<b>Cash flows from operating activities</b>		
Loss before tax	(1,288,626)	(29,400,396)
Adjustments for:		
Depreciation of property, plant and equipment	80,171	768,193
Amortisation of intangible assets arising from a service concession arrangement	-	258,657
Amortisation of prepaid land lease payments	-	10,309
Amortisation of intangible assets	3,034	4,411
Interest expense	72,316	99,604
Loss on disposal of property, plant and equipment	-	15,334
Write-off of property, plant and equipment	-	7,471,811
Impairment loss of intangible assets arising from a service concession arrangement	-	7,770,223
Impairment loss of property, plant and equipment	-	10,163,037
Bank interest income	(7,067)	(7,706)
Imputed interest income on advances to a local authority	(99,512)	(118,424)
Exchange gains, net	-	(181,863)
Operating cash flows before working capital changes	<u>(1,239,684)</u>	<u>(3,146,810)</u>
Decrease in inventories	1,289	2,834
Increase in trade and other receivables	(41,219)	(1,957)
(Decrease)/increase in other payables	<u>(639,967)</u>	<u>791,024</u>
<b>Net cash used in operating activities</b>	<u>(1,919,581)</u>	<u>(2,354,909)</u>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(579)	(814,464)
Placement of structured deposits	571,734	(2,403,430)
Interest received	7,067	7,706
<b>Net cash used in investing activities</b>	<u>578,222</u>	<u>(3,210,188)</u>
<b>Cash flows from financing activities</b>		
Advance from/(repayment to) immediate holding company	(2,038,919)	834,769
Repayment to from related parties	-	(243,106)
Net proceed from private placement financing	1,740,000	-
<b>Net cash generated from/(used in) financing activities</b>	<u>(298,919)</u>	<u>591,663</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(1,640,278)</u>	<u>(4,973,434)</u>
Effects of foreign exchange rate changes	(11,657)	(29,040)
Cash and cash equivalents at beginning of year	2,055,055	7,057,529
<b>Cash and cash equivalents at end of year</b>	<u>403,120</u>	<u>2,055,055</u>
<b>Analysis of cash and cash equivalents</b>		
Bank and cash balances	<u>403,120</u>	<u>2,055,055</u>

## **TOTAL WONDER ENTERPRISES LIMITED**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018**

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#### **1. GENERAL INFORMATION**

Total Wonder Enterprises Limited (the "Company") was incorporated in the British Virgin Islands (the "BVI") with limited liability under the BVI Companies Act. The address of its registered office is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

In the opinion of the sole director of the Company (the "Director"), as at 30 September 2018, Alpha Peak Leisure Inc., a company incorporated in British Columbia of Canada with limited liability under the British Columbia Business Corporation Act, is the immediate holding company of the Company.

The consolidated financial statements are presented in Canadian dollars ("CAD"), which is the Company's functional currency and the Group's presentation currency.

#### **2. GOING CONCERN BASIS**

The Group incurred a loss of CAD2,491,647 for the nine months ended 30 September 2018 and as at 30 September 2018 the Group had net current liabilities of CAD203,027. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the immediate holding company, at a level sufficient to finance the working capital requirements of the Group. The immediate holding company has agreed to provide adequate funds for the Group to meet its liabilities as they fall due. The Director is therefore of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

#### **3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board that are relevant to its operations and effective for its accounting year beginning on 1 January 2017. IFRSs comprise International Financial Reporting Standards; International Accounting Standards ("IAS"); and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior year.

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

#### **4. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with IFRSs and under the historical cost convention, as modified by the revaluation of attractions and improvement and buildings included in property, plant and equipment which are carried at their fair values less costs to sell.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the Director to exercise the judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 5.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

## TOTAL WONDER ENTERPRISES LIMITED

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 September. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### Foreign currency translation

##### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in CAD, which is the Company's functional and the Group's presentation currency.

##### (b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

##### (c) Translation on consolidation

The results and financial position of all the Group's entities that have a functional currency different from the Group's presentation currency are translated into the Group's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the exchange reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## TOTAL WONDER ENTERPRISES LIMITED

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### Property, plant and equipment

Property, plant and equipment are stated at cost or revalued amount less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Revaluation increases of attractions and improvement and buildings are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the revaluation reserve are charged against the revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of a revalued attractions and improvement and buildings, the attributable revaluation increases remaining in the revaluation reserve is transferred directly to retained profits.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their costs less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Attractions and improvement	10-40 years
Buildings	36-40 years
Motor vehicles	4 years
Others	3-5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

#### Intangible assets

##### *Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The intangible assets acquired separately are amortised on a straight-line basis over the following useful lives:

Hot spring prospecting rights	10 years
Trademark	10 years
Patent	10 years
Others	10 years

##### *Intangible assets arising from a service concession arrangement*

When the Group has a right to charge for usage of concession infrastructure as a consideration for providing construction service in a service concession arrangement, it recognises an intangible asset at fair value upon initial recognition. The intangible asset is carried at cost less accumulated amortisation and any accumulated impairment loss, if any. Amortisation is recognised on a straight-line basis over the period which commence from the date when the part of the tourist attraction site is available for use.

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

#### Operating leases

##### *The Group as lessee*

Leases that do not substantially transfer all the risks and rewards of ownership of assets to the Group are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in-first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

## **TOTAL WONDER ENTERPRISES LIMITED**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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#### Construction contracts

Where the outcome of a construction contract including construction of the infrastructure under a service concession arrangement can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

#### Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

#### Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss ("FVTPL").

Financial assets at FVTPL are either investments classified as held for trading or designated as at FVTPL upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in profit or loss.

#### Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the recoverable amount of the receivables can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

#### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

## TOTAL WONDER ENTERPRISES LIMITED

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

#### *Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

#### *Other payables*

Other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

- (a) Revenue from sales of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.
- (b) The Group provides construction services in exchange for concession intangible assets. The revenue from construction services is recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date on the estimated total contract costs.
- (c) Revenue from admission ticket sales and attraction ticket sales is recognised when the tickets are sold and delivered. Admission tickets allow visitors to enter into the tourist site while attraction tickets grant the rights to visitors to enjoy the build-in facilities in the tourist spot.
- (d) Interest income is recognised on a time-proportion basis using the effective interest method.

#### Employee benefits

##### (a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

##### (b) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

##### (c) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

## TOTAL WONDER ENTERPRISES LIMITED

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### Related parties

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (b) An entity is related to the Group (reporting entity) if any of the following conditions applies:
  - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

## TOTAL WONDER ENTERPRISES LIMITED

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### Impairment of assets

At the end of each reporting period, the 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 the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

#### Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

### Critical judgements in applying accounting policies

In the process of applying the accounting policies, the Director has made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the immediate holding company at a level sufficient to finance the working capital requirements of the Group. Details are explained in note 2 to consolidated financial statements.

## TOTAL WONDER ENTERPRISES LIMITED

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the fair value less costs of disposal. Where the fair value less costs of disposal are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of fair value less costs of disposal, a material impairment loss may arise.

(c) Impairment assessment of intangible assets arising from a service concession arrangement

At the end of the reporting period, management would estimate future cash flows generated by the concession intangible assets and determine whether there is any indication on impairment. If such indication exists, the recoverable amount of the concession intangible assets would be estimated and the carrying amount of concession intangible assets would be written down to the recoverable amount and the amount of the write-down would be charged against the profit and loss.

(d) Valuation of property, plant and equipment

Attractions and improvement as well as buildings included in the property, plant and equipment are revalued based on the valuation performed by independent professional valuers. The determination of the valuation involves certain assumptions of market conditions which are set out in note 14. In relying on the valuation report, management has exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions. Changes to these assumptions would result in changes in the valuation of the Group's property, plant and equipment and the corresponding adjustments to the amount of gain or loss arising on the revaluation of property, plant and equipment would be recognised in other comprehensive income.

(e) Estimated impairment of advances to a local authority

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 30 September 2018, the carrying amount of advances to a local authority is CAD2,092,809 (2017: CAD2,014,733) and no impairment on advances to a local authority has been made for the year (2017: Nil).

(f) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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**6. FINANCIAL RISK MANAGEMENT**

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

**(a) Foreign currency risk**

The Group has certain exposure to foreign currency risk as some of its business transactions, assets and liabilities are not principally denominated in the functional currencies of the Group's entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

**(b) Credit risk**

The carrying amount of bank and cash balances, trade and other receivables, structured deposits and advances to a local authority included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

In order to minimise credit risk, the Director has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the Director reviews the recoverable amount of each individual debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the Director considers that the Group's credit risk is significantly reduced.

The credit risk on bank and cash balances and structured deposits are limited because the counterparties are banks with high credit-ratings.

The credit risk on advances to a local authority is limited because the local authority is state owned.

**(c) Liquidity risk**

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follow:

	Less than 3 months CAD	Between 3 months to 1 year CAD	Between 1 to 5 years CAD	Total undiscounted cash flow CAD	Carrying amounts CAD
<u>At 30 September 2018</u>					
Other payables	644,058	-	-	644,058	644,058
Amount due to immediate holding company	-	-	-	-	-
Amounts due to related parties	51,302	-	-	51,302	51,302
Loans from related parties	-	2,052,064	-	2,052,064	2,052,064
	<u>695,360</u>	<u>2,052,064</u>	<u>-</u>	<u>2,747,424</u>	<u>2,747,424</u>
<u>At 31 December 2017</u>					
Other payables	1,546,177	-	-	1,546,177	1,546,177
Amount due to immediate holding company	835,898	-	-	835,898	835,898
Amounts due to related parties	48,216	-	-	48,216	48,216
Loans from related parties	24,109	2,001,015	-	2,025,124	1,928,689
	<u>2,454,400</u>	<u>2,001,015</u>	<u>-</u>	<u>4,455,415</u>	<u>4,358,980</u>

**(d) Interest rate risk**

The Group's exposure to interest rate risk arises from its bank deposits and loans from related parties. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

**(e) Fair values**

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(f) Categories of financial instruments

	<u>For the nine</u> <u>months ended</u>	<u>For the year</u> <u>ended Dec 31,</u>
	<u>Sep 30, 2018</u>	<u>2017</u>
	CAD	CAD
<u>Financial assets</u>		
Loans and receivables (including cash and cash equivalents)	2,544,969	4,116,391
Financial assets at FVTPL (including structured deposits)	<u>1,715,200</u>	<u>2,403,430</u>
	<u>4,260,169</u>	<u>6,519,821</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost	<u>2,747,424</u>	<u>4,358,980</u>

7. FAIR VALUE MEASUREMENTS

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. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) *Disclosures of level in fair value hierarchy at 31 December:*

	Fair value measurements using:			Total 2018 CAD
	Level 1 CAD	Level 2 CAD	Level 3 CAD	
<b>Recurring fair value measurements:</b>				
Financial assets of FVTPL				
Structured deposits	-	-	1,715,200	<u>1,715,200</u>

During the period ended 30 September 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2017: Nil). The Group's policy is to recognise transfer between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(b) *Reconciliation of assets measured at fair value based on level 3:*

No gains or losses are recognised in profit or loss relating to the change in fair value of structured deposits classified as Level 3 in the current year as the amount involved is insignificant, and therefore no reconciliation of Level 3 fair value measurement is presented.

(c) *Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December:*

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Director for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Director at least twice a year.

Key unobservable inputs used in level 3 fair value measurements are mainly:

<u>Description</u>	<u>Valuation technique</u>	<u>Unobservable inputs</u>	<u>Range</u>	<u>Effect on fair value for</u> <u>increase of inputs</u>	<u>Fair value</u> <u>2018</u> <u>CAD</u>
Structured deposits	Discounted cash flows	Expected yields	2.8%-4%	Increase	<u>1,715,200</u>

The Director considers that the impact of the fluctuation in expected yields of the money market instruments and debt instruments to the fair value of the structured deposits are insignificant as the deposits have short maturities, and therefore no sensitivity analysis is presented.

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AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

8. REVENUE

	<u>For the nine</u> <u>months ended</u> <u>Sep 30, 2018</u> CAD	<u>For the year</u> <u>ended Dec 31,</u> <u>2017</u> CAD
Admission ticket sales	115,115	515,578
Attraction ticket sales	228,063	867,303
Others	32,185	8,668
	<u>375,363</u>	<u>1,391,549</u>

9. OTHER INCOME AND OTHER GAINS/(LOSSES), NET

	<u>For the nine</u> <u>months ended</u> <u>Sep 30, 2018</u> CAD	<u>For the year</u> <u>ended Dec 31,</u> <u>2017</u> CAD
Imputed interest income on advances to a local authority (Note 18)	171,165	118,424
Bank interest income	7,067	7,706
Sundry income	-	-
Exchange gains, net	56,064	181,863
	<u>234,296</u>	<u>307,993</u>

10. FINANCE COSTS

	<u>For the nine</u> <u>months ended</u> <u>Sep 30, 2018</u> CAD	<u>For the year</u> <u>ended Dec 31,</u> <u>2017</u> CAD
Interests on loans from related parties/a related party	72,316	99,604

11. PROPERTY, PLANT AND EQUIPMENT

	<u>Attractions</u> <u>and</u> <u>improvement</u> CAD	<u>Buildings</u> CAD	<u>Motor</u> <u>vehicles</u> CAD	<u>Others</u> CAD	<u>Total</u> CAD
<u>Cost or valuation</u>					
At 1 January 2017	19,593,177	2,271,546	1,447,142	122,774	23,434,639
Additions	714,950	-	81,557	17,957	814,464
Disposals	-	-	(205,972)	(29,622)	(235,594)
Written off	(8,424,191)	(338,843)	-	-	(8,763,034)
Exchange realignment	(111,748)	(13,860)	(6,544)	(1,620)	(133,772)
At 31 December 2017 and 1 January 2018	11,772,188	1,918,843	1,316,183	109,489	15,116,703
Additions	-	-	-	579	579
Disposals	-	-	-	-	-
Written off	-	-	-	-	-
Exchange realignment	-	(13,111)	(11,614)	(966)	(25,691)
At 30 September 2018	<u>11,772,188</u>	<u>1,905,732</u>	<u>1,304,569</u>	<u>109,102</u>	<u>15,091,591</u>

**TOTAL WONDER ENTERPRISES LIMITED**

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

Accumulated depreciation and impairment

At 1 January 2017	2,206,290	371,651	1,213,723	60,252	3,851,916
Charge for the year	593,808	61,927	81,261	31,197	768,193
Eliminated on written off	(1,223,797)	(67,426)	-	-	(1,291,223)
Eliminated on disposals	-	-	(195,674)	(24,586)	(220,260)
Impairment loss recognised in profit or loss	10,163,037	-	-	-	10,163,037
Exchange realignment	32,850	(2,182)	(5,526)	(666)	24,476
At 31 December 2017					
and 1 January 2018	11,772,188	363,970	1,093,784	66,197	13,296,139
Charge for the year	-	24,893	46,817	8,461	80,171
Eliminated on written off	-	-	-	-	-
Eliminated on disposals	-	-	-	-	-
Impairment loss recognised in profit or loss	-	-	-	-	-
Exchange realignment	-	(12,483)	(9,652)	(2,634)	(24,769)
At 30 September 2018	11,772,188	376,380	1,130,949	72,024	13,351,541

Carrying amounts

At 30 September 2018	-	1,529,352	173,620	37,078	1,740,050
At 31 December 2017	-	1,554,873	222,399	43,292	1,820,564

Attractions and improvement and buildings of the Group were revalued on 31 December 2017 at a total carrying amount of CAD1,554,873 (2016: CAD19,286,782). In estimating the fair values of the attractions and improvement and buildings, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent professional qualified valuers to perform valuation. Management works closely with the independent professional qualified valuers to establish the appropriate valuation technique and inputs to the model. Management reports the findings and explains the cause of fluctuations in the fair values of the attractions and improvement and buildings, if any.

Attractions and improvement and buildings of the Group were revalued by Vigers Appraisal & Consulting Limited ("Vigers") on 31 December 2016 on the depreciated replacement cost approach that reflects the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence.

*Impairment loss recognised during the year ended 31 December 2017:*

As a result of the unfavourable performance and change in business plan of Gongga Terraferma Limited ("Gongga"), a wholly owned subsidiary of the Company, management conducted impairment assessments of the property, plant and equipment and intangible assets arising from a service concession arrangement of Gongga. Except for certain buildings included in property, plant and equipment, Gongga is considered as a cash-generating unit ("CGU") for the purpose of the impairment test. A CGU is considered to be impaired when its recoverable amount declines below its carrying amount. The recoverable amount is the higher of value in use and fair value less costs of disposal.

The recoverable amount of Gongga, excluding the revalued amount of certain buildings included in property, plant and equipment as at 31 December 2017, was determined based on value-in-use calculation and certain key assumptions. Value-in-use calculation used cash flow projections based on financial budgets approved by the management covering a five-year period. Discount rate used for the value-in-use calculation is 18.34%. Cash flow beyond the five-year period was extrapolated using a growth rate of 3.0%. Other key assumptions for the value-in-use calculation related to the estimation of cash inflows/outflows which include gross budgeted sales and gross margin. Such estimation was based on the management's expectations for the market development.

During the year ended 31 December 2017, an impairment loss of CAD10,163,037 was recognised in respect of attractions and improvement in profit or loss. In addition, a write-off of CAD7,471,811 was recognised in profit or loss during the year ended 31 December 2017, of which (i) CAD7,200,394 was in relation to attractions and improvement; and (ii) CAD271,417 was in relation to buildings.

During the year ended 31 December 2016, an impairment loss of CAD6,143,637 was recognised in other comprehensive income, of which (i) CAD4,784,054 was allocated to attractions and improvement; and (ii) CAD1,359,583 was allocated to buildings on a pro rata basis with reference to their respective carrying amounts before impairment, and reduced the corresponding revaluation surplus.

**TOTAL WONDER ENTERPRISES LIMITED**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018**12. INTANGIBLE ASSETS ARISING FROM A SERVICE CONCESSION ARRANGEMENT**

	CAD
<u>Cost</u>	
At 1 January 2017	9,147,324
Exchange realignment	(38,342)
At 31 December 2017 and 1 January 2018	9,108,982
Exchange realignment	-
At 30 September 2018	9,108,982
<u>Accumulated amortisation and impairment</u>	
At 1 January 2017	1,084,297
Amortisation for the year	258,657
Impairment loss recognised in profit and loss	7,770,223
Exchange realignment	(4,195)
At 31 December 2017 and 1 January 2018	9,108,982
Amortisation for the year	-
Impairment loss recognised in profit and loss	-
Exchange realignment	-
At 30 September 2018	9,108,982
<u>Carrying amounts</u>	
At 30 September 2018	-
At 31 December 2017	-

Gonga entered into a service concession arrangement with Ganzi Hailuogou Attractions Authority ("Grantor"), a local authority in the PRC, in 2007 in respect of the construction and operation of tourist attraction business in Sichuan Province, the PRC. The service concession period is 40 years.

Gonga acted as an operator in the service concession arrangement to construct the tourist attraction and to operate and maintain the tourist attraction at a specified level of serviceability on behalf of the local authority over the service concession period on a build-operate-transfer ("BOT") basis. The tourist attraction on a BOT basis mainly includes the basic infrastructure in the tourist attraction such as the pavements, electricity supply, restaurants etc.

Under the service concession arrangement contract, the Group can share 80% of the admission ticket sales and entitle to the entire amount of attraction ticket sales with the remaining 20% admission ticket sales shared by the Grantor. During the operation phase of the service concession period, the Group is not entitled to receive guaranteed receipts of tourist operation from the Grantor.

Intangible assets arising from a service concession arrangement represents costs incurred by the Group for the construction services rendered under the service concession arrangement for the tourist attraction in the PRC on a BOT basis. Revenue and costs relating to the construction phase of the contract are accounted for in accordance with IAS 11 "Construction Contracts" which the revenue on construction is recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date to the estimated total contract costs.

Revenue and costs relating to the operation phase of the contract are accounted for in accordance with IAS 18 "Revenue" which revenue is measured at the fair value of the consideration received or receivable.

During the year ended 31 December 2017, the Group did not recognise any revenue from construction services in relation to the tourist attraction under BOT (2016: CAD730,811) by reference to the stage of completion of the construction work.

The intangible assets arising from a service concession arrangement has finite useful lives and amortised over the period which commence from the date when the part of the tourist attraction site is available for use, i.e. 36 to 40 years, using a straight-line method.

As disclosed in note 14, management conducted impairment assessments of property, plant and equipment and intangible asset arising from a service concession arrangement of Gonga due to unfavourable performance and change in business plan of Gonga.

Intangible assets arising from a service concession arrangement is fully impaired and impairment loss of CAD7,770,223 has been recognised during the year ended 31 December 2017.

**TOTAL WONDER ENTERPRISES LIMITED**

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

**13. ADVANCES TO A LOCAL AUTHORITY**

The amount represents the funds advanced to Grantor in relation to the construction of the infrastructure outside the tourist attraction site.

During the period ended 30 September 2018, imputed interest income of CAD99,512 (2016: CAD118,424 ) has been recognised and included in "Other income". Imputed interest rate of 6.4% per annum is applied.

The advances are interest-free and unsecured. In the opinion of the Director, the advances will not be settled in the coming twelve months from the end of the reporting period and is therefore classified as non-current assets.

**14. INVENTORIES**

	<u>For the nine</u> <u>months ended</u> <u>Sep 30, 2018</u> CAD	<u>For the year</u> <u>ended Dec 31,</u> <u>2017</u> CAD
Consumable goods	1,928	2,359
Souvenirs	23,117	23,975
	<u>25,045</u>	<u>26,334</u>

**15. TRADE AND OTHER RECEIVABLES**

	<u>For the nine</u> <u>months ended</u> <u>Sep 30, 2018</u> CAD	<u>For the year</u> <u>ended Dec 31,</u> <u>2017</u> CAD
Trade receivables	-	6,812
Prepayments	106,710	66,006
Other receivables	49,040	39,791
	<u>155,750</u>	<u>112,609</u>

The Group's admission tickets and attraction tickets sales are largely operated on cash on delivery or due immediately from date of billing, except for a credit term of 30 days is granted to travel agents.

Before granting credit period to any new travel agent, the Group has assessed the credit quality of each potential travel agent and defined credit rating and limit for each travel agent. In addition, the Group has reviewed the repayment history of receivables by each travel agent with reference to the payment terms stated in contracts to determine the recoverability of receivables.

Included in the Group's no any trade receivables are debtors in 2018(2017: CAD6,812) which are past due by 91 to 180 days at the end of the reporting period for which the Group has not provided for impairment loss as they had been fully settled subsequent to the end of the reporting period. The Group does not hold any collateral over these balances.

**16. STRUCTURED DEPOSITS**

The structured deposits represented deposits of RMB9,000,000 (equivalent to approximately CAD1,715,200) which were issued by a bank in the PRC. The structured deposits carry interests at expected interest rate that range from 2.8% to 4.65% per annum, which are linked to the performance of the underlying money instruments and debt instruments, payable on maturity 14 days and 90 days from the date of purchase. The structured deposits are designated at FVTPL on initial recognition as it contains non-closely related embedded derivative.

No change in fair value for the structured deposits is recognised in profit or loss for the year ended 31 December 2017 as the effect is not significant.

**17. BANK AND CASH BALANCES**

As at 30 September 2018, the bank and cash balances of the Group denominated in RMB amounted to CAD234,453 (2017: CAD1,802,009). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

**TOTAL WONDER ENTERPRISES LIMITED**

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

18. OTHER PAYABLES

	<u>For the nine</u> <u>months ended</u>	<u>For the year</u> <u>ended Dec 31,</u>
	<u>Sep 30, 2018</u>	<u>2017</u>
	CAD	CAD
Construction expenses	400,369	575,025
Admission ticket sales proceeds entitled by a local authority	494,060	451,450
Legal and professional fee	-	87,278
Advertising expenses	118,739	524,215
Staff costs	84,872	58,505
Sub-contracting expenses	-	18,666
Others	40,078	282,488
	<u>1,138,118</u>	<u>1,997,627</u>

19. AMOUNTS DUE TO/FROM IMMEDIATE HOLDING COMPANY/RELATED PARTIES

As at 31 December 2017, amount due to a shareholder amounted to CAD835,898. The amount is unsecured, non-interest bearing and repayable on demand.

As at 30 September 2018, amount due from a shareholder amounted to CAD1,203,012. The amount is unsecured, non-interest bearing and repayable on demand.

20. LOANS FROM RELATED PARTIES/A RELATED PARTY

On 1 September 2017, the Group entered into a loan assignment agreement with a related party and related parties under which the a related party assigned its right relating to the loan and all its interest accrued with an aggregate amount of HK\$12,100,000 (equivalent to approximately CAD2,000,000) to the related parties with immediate effect.

As at 30 September 2018, the principal amount owing pursuant to the loan from related parties was CAD2,052,064. Such loan is unsecured, interest bearing at Hong Kong Prime Rate of 5% per annum and has a maturity date of 31 December 2018. On 10 December 2018 the maturity date was extended to 31 December 2019. Amounts due to related parties of CAD51,302 (2016: Nil) represent interest payable from such loans, are unsecured, interest-free and repayable on demand.

21. SHARE CAPITAL**Issued and fully paid**

	Number of ordinary <u>shares</u>	<u>Share capital</u> HK\$	Equivalent <u>share capital</u> CAD
As at 31 December 2017	39,772	78,938,570	13,551,884
Issue of shares on June 8 2018	<u>1</u>	<u>10,586,160</u>	<u>1,740,000</u>
As at 30 September 2018	<u>39,773</u>	<u>89,524,730</u>	<u>15,291,884</u>

22. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that group entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall capital management strategy remains unchanged from prior year.

Management reviews the capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with the capital. Based on recommendations of management, the Group will balance its overall capital structure through new share issues as well as issue of new debt.

**TOTAL WONDER ENTERPRISES LIMITED**

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

**23. RELATED PARTY TRANSACTIONS**

In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, during the year, the Group had the following transactions with its related party:

	<u>For the nine</u> <u>months ended</u> <u>Sep 30, 2018</u> CAD	<u>For the year</u> <u>ended Dec 31,</u> <u>2017</u> CAD
Interest payable to a shareholder	-	66,440
Interest expenses to related parties	-	33,164
Management fee payable to a related party	72,316	31,347

**24. PARTICULARS OF SUBSIDIARIES OF THE COMPANY**

Particulars of the Company's subsidiaries as at 30 September 2018 are as follows:

<u>Name</u>	<u>Place of</u> <u>incorporation</u>	<u>Issued and</u> <u>paid-up</u> <u>capital</u>	<u>Percentage</u> <u>of the ownership</u> <u>interest/voting power</u>		<u>Principal</u> <u>activities</u>
			<u>Direct</u>	<u>Indirect</u>	
Merit Sign Investments Limited	Hong Kong	HK\$397,690	100%	-	Investment holding
Gonga	The PRC	RMB118,000,000	-	100%	Development and operation of Swallow Gully

----- End of Notes -----

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following management's discussion and analysis of financial condition and results of operations (the "MD&A") of Total Wonder Enterprises Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is prepared for the years ended December 31, 2017 and 2016. The MD&A should be read in conjunction with the audited consolidated financial statements and related notes thereto for the years ended December 31, 2017 and 2016 of the Group and the accompanying management information circular. These financial statements were prepared in accordance with International Financial Reporting Standards. The results of operations, business prospects and financial condition of the Group will be affected by certain risk factors described elsewhere in this document.*

*All dollar figures stated in this MD&A are expressed in Canadian dollars, unless otherwise specified. Information contained herein includes any significant developments to December 20, 2018.*

### **Forward-looking statement**

This MD&A includes certain forward-looking information and forward-looking statements (collectively "Forward-Looking Statements") concerning the future performance of the Group's business, operations and financial performance and condition, as well as management's objectives, strategies, beliefs and intentions. Forward-Looking Statements are frequently identified by such words as "may", "will", "plan", "expect", "anticipate", "estimate", "intend" and similar words referring to future events and results. Some of the Forward-Looking Statements in this MD&A are included in the section entitled "2018 Outlook: Repositioning of business focus and completing the preliminary offering of vacation package". Some of these Forward-Looking Statements express management's beliefs and intentions relating to the future operational direction of the Company, such as "to create a diversified tourism experience, as well as promoting a new tourism style"; "we will improve the overall planning scheme"; and "we will consult and work closely with local government to better promote Swallow Gully". Forward-Looking Statements are based on the current opinions and expectations of management based on currently available information. All Forward-Looking Statements are inherently uncertain and subject to a variety of risks and uncertainties, such as unfavorable weather conditions, natural disasters, competition from nearby scenic tourism areas, changes in the tourism promotion policies of Mainland China, acceptability of terms of arrangements with local governments on new programs and initiatives, acceptability of our new programs and initiatives by the consumer audience that we are targeting, costs related to implementing new programs and initiatives to add new revenue streams, availability of working capital and financial resources to implement and sustain programs and initiatives once they have been started, changes in Chinese laws and regulations, all as described in various parts of this MD&A and the "Risk Factors" section in the accompanying management information circular. Such Forward-Looking Statements are based on a number of assumptions, including but not limited to, information or statements concerning the Group's expectations for its ability to raise capital and meet the Group's obligations. Should one or more risks and uncertainties materialize or should any assumptions prove incorrect, then actual events or results may differ materially from those expressed or implied in the Forward Looking-Statements. Investors are cautioned against placing undue reliance thereon. The Group undertakes no obligation to revise or update the Forward-Looking Statements, except as required by applicable law.

### **Overview**

The principal activities of the Group are developing and operating Swallow Gully Scenic Area ("Swallow Gully"), a large scale tourist attraction site in Sichuan Province, the People's Republic of China (the "PRC").

The Company was incorporated pursuant to the British Virgin Islands Business Corporations Act on November 21, 2013. The Company's head office and its registered office is located at British Virgin Islands. Other than serving as a holding company for all the issued and outstanding share capital of Merit Sign Investments Limited ("Merit Sign"), a company incorporated under the laws of Hong Kong, the company does not carry on any active business.

#### *Fourth Quarter 2017 Operating Results*

The Group's revenue totaled \$370,713 for the fourth quarter, compared to \$358,218 in the prior year quarter, up 3.5%.

The Group revenue growth was led by increased of visitors in the fourth quarter. In the first half of 2017, continuous marketing campaigns were launched to increase cooperation with travel agencies.

Total operating costs were \$25.5 million in the fourth quarter, relative to \$1.9 million in the prior year period.

The net loss for the fourth quarter of 2017 increased by 2,179.37% to \$25,525,204 from \$1,119,835 for the fourth quarter of 2016.

#### *Overall Performance 2017*

In 2017, we reported a net loss of \$29.44 million, a substantial increase of 60% as compared to the same period in 2016. The increase was mainly due to the impairment loss for 2017.

#### Revenue

The Group's revenue consists of construction services under a service concession arrangement, admission ticket sales, attraction ticket sales and bubble hotels business. Revenue for the full year decreased 15.5% to \$1,391,549, mainly due to the absence of construction services under a service concession that terminated in 2017.

Revenues from admission ticket sales increased 48% to \$515,578. The segment's growth which reflected over 35% of revenues resulted from the increase in number of visitations. In comparison to 2016, the operations were adversely affected by landslides and bad weather from June to August of 2016, resulting in the drop of spending per visitor from \$19 to \$14. However, in 2017, continuous sales promotion and publicity activities have greatly improved the number of individual visitors. In 2017, traffic facilities in Chengdu to Moxi were greatly improved compared with that in 2016, and convenient for tourists to enter scenic spots.

Revenues from attraction ticket sales recorded a growth which reflected approximately 53.5% of revenues resulted from the increase in number of visitation.

Revenue with bubble hotels business increased by 29% to \$72,553, which is mainly caused by the increase of visitors.

In 2017, the increase in admission ticket sales and attraction ticket sales are mainly caused by few reasons as follow:

- 1) The first half of 2017, continuous marketing campaigns were launched to increase cooperation with travel agencies.
- 2) Since the four major line travel agencies began to cooperate with the company in 2015, they gradually improved their own sales channels and basically covered the market of the two-level city travel agencies in Chengdu and the province, and took the initiative to do some promotion activities, from passive to the initiative to carry out a little increase in swallow gully.
- 3) An earthquake that took place on August 8, 2017 in Jiuzhaigou, Sichuan resulted in increased tourist traffic to the Swallow Gully.
- 4) In 2017, traffic facilities in Chengdu to Moxi were greatly improved compared with 2016, which improved the entry of scenic spots.

## Operating Expenses

Marketing expenses were \$0.88 million in 2017, a substantial decrease of 39.6% from the same period in 2016. The Group's decreased marketing program spending is mainly caused by the factor that the payment of RMB 3 million to company's strategic partner, China Travel Service (HK) Ltd in 2016 that did not reoccur for 2017. Instead, during the year 2017, variety of more cost-effective marketing campaigns were launched to increase cooperation with travel agencies which effectively decreased the over all marketing expense with an improved visiting numbers.

Promotional expenses were \$192,428 in 2017, which was 27.1% lower than in 2016, as management is constantly exploring cost effective methods of promoting Swallow Gully.

Promotional expenses were 13.8% of adjusted revenue in 2017 as compared to 28.8% in 2016. The promotional expenses to adjusted revenue ratio is a measurement of the effectiveness of our advertising campaign and depends on several factors such as the competitive rivalry, business size, and its growth stage. This ratio will fluctuate in any given period depending on the timing of program spending.

Administrative expenses were \$2.48 million in 2017, which was 37.7% higher than in 2016. The increase in spending was mainly due to the full year running expenses of Hong Kong management office.

Administrative expenses were 178.5% of revenue in 2017 as compared to 109.5% in 2016. The increase has been the result of higher net loss.

2018 Outlook: Repositioning of business focus and completing the preliminary offering of vacation package

For the year 2018, we will transform the previous tourism pattern, through the change of current scenic area's service concept and product offering, to create a diversified tourism experience, as well as promoting a new tourism style. Under this world class environmental resources and the distinct culture of Kangba, we aim to create an international vacation resort -- Swallow Gully tourism cultural resort of Gongga Mountain, China.

In order to facilitate such change, our product offering and marketing efforts will focus on the followings:

**Operation and marketing:** our main target tourists are the parent-child family as well as middle-aged and young people with middle and high income such as the white-collar. These people, who have both the power of consumption and influence, are the future marketing target group of our scenic area.

In response to China's tourism related policies and market demand, we will change the previous marketing aim to a more targeted marketing strategy, covering social media as well as traditional channels, to better leverage the influence of the new image of Swallow Gully.

In operation, we will mainly focus on providing resort service, to meet the tourists' demand for the high mountain vacation. As well as encouraging add-on sales, to improve the overall income of the scenic area.

**Product offering:** The Company positions the scenic area as Swallow Gully tourism cultural resort of Gongga Mountain, highlighting the tourism and vacation aspects. The scenic area is a high mountain resort town, with wild luxury resort hotels, catering, outdoor recreation, science and natural education of kids, and sightseeing. Therefore, in 2018, the bubble hotel will be reconstructed, we will establish vacation restaurants, create outdoor parent-child products, and improve the IT system of the scenic area, so that tourists can experience a unique vacation experience.

In addition, we will improve the overall planning scheme of Swallow Gully tourism cultural resort, which is composed of the Swallow Gully scenic area and the tourism resort town, and we will consult and work closely with local government to better promote Swallow Gully.

## Factors Affecting Results of Operations

### Foreign Currency

The majority of the Group's revenue and expenses are denominated in Renminbi ("RMB") and generated through its wholly owned operating subsidiary, Gongga Terraferma Limited ("Gonga"), a company incorporated under the laws of the PRC, which is the developer and operator of Swallow Gully. Meanwhile, some of the Group's expenses are denominated in Hong Kong dollars ("HKD") and generated through its wholly owned subsidiary, Merit Sign, a company incorporated in Hong Kong, which provides management services to the Group. Accordingly, the results of operations are impacted by the fluctuation of RMB and HKD against Canadian dollars ("CAD"). The average exchange rate of RMB against CAD for the years ended December 31, 2017 and 2016 was RMB 1 = CAD 0.1920 and RMB 1 = CAD 0.1987 respectively. While that for HKD against CAD for the years ended December 31, 2017 and 2016 was HKD 1 = CAD 0.1661 and HKD 1 = CAD 0.1703 respectively.

### Seasonality

The tourism business is seasonal in nature. Based on historical results, we generally expect our revenue to be lower during the first calendar quarter of each year than during each of the three subsequent quarters, with the second and third quarters producing the strongest revenue of the year.

### Selected annual information

The financial results of the Group for the financial years ended December 31, 2017, 2016 and 2015 are summarized as follows:

	For the financial year ended and as at Dec 31, 2017 \$	For the financial year ended and as at Dec 31, 2016 \$	For the financial year ended and as at Dec 31, 2015 \$
Total Revenue	1,391,549	1,647,025	1,060,314
Loss before tax			
(i) Total for the year	29,400,396	3,862,716	6,353,410
(ii) per share - basic	2.17	0.28	0.47
(iii) per share - fully diluted	2.17	0.28	0.47
Net Loss			
(i) Total for the year	29,400,396	3,862,716	6,353,410
(ii) per share - basic	2.17	0.28	0.47
(iii) per share - fully diluted	2.17	0.28	0.47
Total Assets	8,747,303	37,078,968	50,692,264
Total Non-current Liabilities	-	2,075,712	3,682,512
Distributions or Cash Dividends declared per-share	Nil	Nil	Nil

## Results of Operations – Year Ended December 31, 2017 compared to December 31, 2016

### Revenue

	<b>For the year ended December 31,</b>			
	<b>2017</b>	<b>% of Total</b>	<b>2016</b>	<b>% of Total</b>
	\$		\$	
Construction services under a service concession arrangement	-	-	730,811	44.4%
Admission ticket sales	515,578	37.1%	347,806	21.1%
Attraction ticket sales	867,303	62.3%	564,893	34.3%
Others	8,668	0.6%	3,515	0.2%
<b>Total</b>	<b>1,391,549</b>	<b>100.0%</b>	<b>1,647,025</b>	<b>100.0%</b>
Less:				
Construction services under a service concession arrangement	-		(730,811)	
<b>Adjusted total</b>	<b>1,391,549</b>		<b>916,214</b>	
<b>Number of visitors</b>	<b>102,003</b>		<b>64,597</b>	
<b>Spending per visitor</b>	<b>14</b>		<b>14</b>	

For the year ended December 31, 2017, total revenue was 15.5% lower than last year, as the Company earned revenue from the construction services under a service concession arrangement of \$730,811 last year.

Revenue from construction services for the year ended December 31, 2017 decreased compared to last year. The Swallow Gully was completed in 2016, so there is no longer any construction services revenue for 2017.

Revenue from construction services was accounted for in accordance with IAS 11 *Construction Contracts* (see note 5 to the audited consolidated financial statements). As such, the revenue and cost from construction services were offset with each other. Excluding revenue from construction services, the adjusted revenue was \$1,391,549 for the year ended December 31, 2017 compared to \$916,214 for the same period in the year prior, reflecting an increase of \$475,335. The increase was attributed to the increase in the number of visitors.

Swallow Gully attracted 102,003 visitors for the year ended December 31, 2017, compared to 64,597 visitors for the same period in the previous year. The increase was mainly due to better marketing efforts and signing on additional travel agents.

The spending per visitor for the year ended December 31, 2017 was \$14, compared to \$14 for the same period in the previous year. It was expected to use the price adjustment strategy to stabilize the number of visitors, to remain competitive.

## Cost of Sales/Services

	<b>For the year ended December 31,</b>			
	<b>2017</b>	<b>% of Total</b>	<b>2016</b>	<b>% of Total</b>
	\$		\$	
Provision of construction services under a service concession arrangement	-	-	730,811	26.9%
Amortization of intangible assets	258,657	11.6%	269,824	9.9%
Depreciation	655,735	29.4%	556,053	20.4%
Salary	315,470	14.1%	269,050	9.9%
Insurance expenses	73,001	3.2%	60,399	2.2%
Transportation	217,830	9.8%	190,348	7.0%
Meal and entertainment	-	-	15,581	0.6%
Sales rebate and others	710,761	31.9%	629,028	23.1%
<b>Total</b>	<b>2,231,454</b>	<b>100.0%</b>	<b>2,721,094</b>	<b>100.0%</b>
Less:				
Provision of construction services under a service concession arrangement	-		(730,811)	
<b>Adjusted total</b>	<b>2,231,454</b>		<b>1,990,283</b>	

The cost of sales/services decreased by 18% to \$2,231,454 for the year ended December 31, 2017, compared to \$2,721,094 in the previous year. This was mainly because of the decrease in the provision of construction services. Excluding this portion, the adjusted cost of sales/services increased by \$241,171 to \$2,231,454 for the year ended December 31, 2017, compared to \$1,990,283 for the same period in the year prior.

The more notable components of the year-over-year change in cost of sales/services included:

- For the year ended December 31, 2017, sales rebate and other expenses of \$710,761 increased \$81,733 or 13.0% from the year ended December 31, 2016.
- For the year ended December 31, 2017, depreciation of \$655,735 increased \$99,682 or 17.9% from the year ended December 31, 2016.

## Gross Loss

	<b>For the year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>Increase (decrease)</b>
	\$	\$	
Gross loss	839,905	1,074,069	-21.8%

The gross loss decreased by 21.8% to \$839,905 for the year ended December 31, 2017, up from \$1,074,069 from the prior year.

## Other Income

	<b>For the year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>Increase (decrease)</b>
	\$	\$	
Other income	126,130	151,629	-16.8%

Other income consists of imputed interest income on advances to a local authority, Hailuogou Authority (see note 8 to the audited consolidated financial statements), which was advanced in prior years, bank interest income and sundry income. For the year ended December 31, 2017, other income decreased \$26,085 or 16.5% compared to the same period in the last year, representing the interest income derived from bank deposit decreasing as a result of the \$4.8 million bank deposit balances decreasing during the current year.

### Marketing Expenses

	<b>For the year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>Increase (decrease)</b>
	\$	\$	
Fee paid to China Travel Service (H.K.) Ltd.	-	598,345	100.0%
Promotional activities	192,428	263,928	-27.1%
Staff costs and others	687,749	595,094	-15.6%
<b>Total</b>	<b>880,177</b>	<b>1,457,367</b>	<b>-39.6%</b>

Marketing expenses decreased 39.6% to \$880,177 for the year ended December 31, 2017, compared the last year. The decrease was mainly due to the marketing initiatives and the services fee accrued to China Travel Service (H.K.) Ltd., in 2016.. During the year 2017, a variety of more cost-effective marketing campaigns were launched to increase cooperation with travel agencies which effectively decreased the overall marketing expense with an improved visiting numbers.

### Other Gain and Loss

	<b>For the year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>Increase (decrease)</b>
	\$	\$	
Other gain and (loss)	181,863	376,699	-51.7%

In the current year, we recorded foreign exchange gain of 81,863 as compared to a gain of \$376,699 for the last year. Other gain and loss comprises net foreign exchange gain or loss. The year over year less improvement in foreign exchange gain and loss is principally due to the result of much stronger RMB in relation to CAD and HKD throughout 2017.

### Administrative Expenses

	<b>For the year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>Increase (decrease)</b>
	\$	\$	
Administrative expenses	2,483,632	1,803,974	37.7%

Administrative expenses primarily consist of director fees, professional fees, salaries and benefits, hydro and electricity and entertainment expenses.

Administrative expenses increased 37.7% to \$2,483,632 for the year ended December 31, 2017 from \$1,803,974 for the same period in 2016. The increase was mainly due to the fees paid to the CFO and staff who were the running expenses of Hong Kong management office.

## Net Loss

	<b>For the year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>Increase (decrease)</b>
	\$	\$	
Net loss	29,400,396	3,862,716	661%
Less:			
(Gain)/loss on revaluation of property, plant and equipment	-	(1,472,915)	
Reversal of deferred tax liability on revaluation and impairment loss of property, plant and equipment	-	(1,167,680)	
Impairment loss recognised in respect of intangible asset arising from a service concession arrangement	(7,770,223)	-	
Write-off in respect of property, plant and equipment	(7,471,811)	-	
Impairment loss of property, plant and equipment	(10,163,037)	6,143,637	
Non-cash unrealized exchange (gain) loss	(210,726)	4,893,588	
<b>Adjusted net loss</b>	<b>3,784,599</b>	<b>12,259,346</b>	<b>-69.1%</b>

Net loss increased 661% to \$29,400,396 for the year ended December 31, 2017, compared to last year. The increase was mainly due to the impairment loss in 2017. The increase was mainly due to the fees paid to CFO and staff that were the running expenses of Hong Kong management office.

Starting from Q3 of year 2017, our Group has changed management team. As former management team has overestimated forecast cash flow in the past, after careful analysis and projection, the current team decide to modify to a more conservative but realistic cash flow forecast. Based on the law and regulations, in 2017 our Group have to do an impairment, and the impairment lead our Group obvious loss at the ended of December 31, 2017.

## Liquidity

The purpose of liquidity management is to ensure there is sufficient cash to meet all of the Group's financial commitments and obligations as they fall due. The Group believes that it has the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill its cash requirements in 2017. The Group's main source of funds is from admission and attraction ticket sales and cash on hand. The Group's use of funds is primarily for its operating expenses and investment in property, plant and equipment.

At present, there are no known demands, commitments, events or uncertainties that would adversely affect the trends and expected fluctuations in the Group's liquidity.

	<b>For the year ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
	\$	\$
Net cash used in operating activities	(2,401,180)	(3,118,104)
Net cash used in investing activities	(3,163,917)	(784,044)
Net cash from financing activities	591,663	(317,342)
Effects of foreign exchange rate changes on cash	(29,040)	(392,497)
Net decrease in cash	(4,973,434)	(4,289,490)
Working capital	(203,027)	5,332,036

The net cash used in investing activities for the year ended December 31, 2017 consists of the acquisition of property, plant and equipment in the amount of \$768,193 and placement of structured deposit amount of \$2,403,430, offset by the bank interest income of \$7,706. The property, plant and equipment included attractions and improvement, motor vehicles and others (see note 5 to the audited consolidated financial statements). The net cash from investing activities for the same period in 2016 was the bank interest income of \$24,072, offset by the acquisition of property, plant and equipment in the amount of \$808,116.

The net cash from financing activities for the year ended December 31, 2016 merely represented the net proceeds from the private placement financing.

Effects of foreign exchange rate changes on cash representing the unrealized exchange gain (loss) arising on translation of bank balance of foreign subsidiaries, of which the functional currency is other currencies than CAD, the Group's presentation currency.

Working capital decreased from \$(203,027) as at December 31, 2016 to \$5,332,036 as at December 31, 2017 mainly due to the continued operating loss and the acquisition of property, plant and equipment.

### Capital Expenditures

The Group's capital expenditures primarily relate to its investment in the property, plant and equipment required in its business operations. Management expects to use a portion of the net proceeds from the private placement financing to further invest in capital expenditures.

### Off-Balance Sheet Arrangements

The Group has no off-balance sheet arrangements.

### Related Party Balances and Transactions

As at December 31, 2017, the Group had a current and non-current balance due to a shareholder, CN Lifestyle Limited, in the amount of \$48,216 (2016: \$201,277) and nil (2016: \$2,075,712), respectively.

As at December 31, 2017, the Group had a current and non-current balance due to a related party, Chong's Family, in the amount of \$1,928,689 (2016: nil), respectively.

The Group had the following transactions with a shareholder and a related party:

	<b>For the year ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
	\$	\$
Interest payable to a shareholder	66,440	102,147
Interest payable to related parties	33,164	-
Management fee payable to a related party	31,347	40,867

### Financial Instruments and Other Instruments

The Group held cash of \$2.0 million on its audited consolidated statement of financial position as at December 31, 2017 and does not have any cash equivalents or invested assets. The Group does not currently utilize any other instruments such as derivative financial instruments to reduce its exposure. All of the Group's financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost.

The Group, through its financial instruments, is exposed to various risks as discussed below.

### *Currency risk*

The Group's foreign currency risk exposure is mainly derived from bank balances, amount due to a shareholder and loan from a shareholder denominated in foreign currency. Management monitors foreign exchange fluctuation by closely monitoring the movement of foreign currency rate. The carrying amounts of the Group's foreign currency denominated bank balances were \$2.0 million and \$7.0 million as at December 31, 2017 and 2016 respectively, and liabilities were \$4.8 million and \$3.9 million as at December 31, 2017 and 2016 respectively.

Management expects market forces are exerting strong pressure on the RMB to depreciate against CAD, drop 3% in 2017. Management will closely monitor the trend depreciation of the RMB and assessing its relevant impact on our performance, will consider the currency hedging should the need arises.

### *Interest rate risk*

Fluctuation in interest rate could impact the results of operations of the Group. The Group is exposed to cash flow interest rate risk in relation to the bank balances and loan from a shareholder. Interest rate risk is concentrated on the fluctuation of the Hong Kong Prime rate for all periods presented. The Group currently does not have any interest rate hedging policy in relation to cash flow interest rate risks. Management monitors this risk on ongoing basis and will consider hedging interest rate should the need arises.

### *Credit risk*

As at December 31, 2016 and 2015, the balance that is subject to significant concentration of credit risk is the advances to a local authority. Management of the Group considered the credit risk on this balance is limited because Gongga had entered into a 40-year service concession arrangement with the local authority in 2007 (see note 5 to the audited consolidated financial statements). As at December 31, 2016 and 2015, the Group's maximum exposure to credit risk which will cause financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position.

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Management of the Group considers that its credit risk is significantly reduced. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

### **Outstanding Shares and Share Options Information**

As at December 31, 2017 and 2016 the Company had 39,772 ordinary shares equivalent to \$13,551,884.. As at the date of this MD&A, the Company has 39,773 ordinary shares equivalent to \$15,291,884.

### **Critical Accounting Policies and Estimates**

This MD&A should be read in conjunction with the audited consolidated financial statements and related notes thereto for the years ended December 31, 2017 and 2016 of the Group. Note 2 to the audited consolidated financial statements outlines the significant accounting principles and policies used to prepare these consolidated financial statements. Accounting policies are critical if they rely on a substantial amount of judgment in their application or if they result from a choice between accounting alternatives and that choice has a material impact on reported results or financial position.

The key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

#### *Estimated impairment of advances to a local authority*

When there is objective evidence of impairment loss, management of the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. No impairment on advances to a local authority is considered necessary for the years ended December 31, 2017 and 2016.

#### *Valuation of property, plant and equipment*

Attractions and improvement and buildings included in the property, plant and equipment are revalued based on the valuation performed by an independent professional valuer. The determination of the valuation involves certain assumptions of market conditions. In relying on the valuation report, management of the Group has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions. Changes to these assumptions would result in changes in the valuation of the Group's property, plant and equipment and the corresponding adjustments to the amount of gain or loss arising on the revaluation of property, plant and equipment would be recognized in other comprehensive income.

#### *Useful lives and impairment assessment of property, plant and equipment*

Property, plant and equipment are stated at cost or revalued amount less subsequent accumulated depreciation and accumulated impairment losses. The estimation of their useful lives impacts the level of annual depreciation expense recognised. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets or cash-generating units. For any instance where this evaluation process indicates impairment, the relevant asset's carrying value would be written down to the recoverable amount and the amount of the write-down would be charged against the revaluation reserve in other comprehensive income or profit or loss, according to the accounting policies of the Group.

As at December 31, 2017, the carrying value of the property, plant and equipment was \$1,820,564(2016: \$19,582,723). Impairment losses of \$10,163,037 (2016: \$Nil) and write-off of \$7,471,811 (2016: \$Nil) is recognised in the statement of profit or loss in respect of property, plant and equipment for the year ended December 31, 2017.

#### *Amortization and impairment assessment of concession intangible asset*

Amortization of concession intangible asset is calculated using straight-line basis over the period which commences from the date when the part of the tourist attraction site is available for use. The estimation of the useful life impacts the level of annual amortization expense recorded. At the end of each reporting period, the management of the Group would estimate future cash flows generated by the concession intangible asset and determine whether there is any indication on impairment. If such indication exists, the recoverable amount of the concession intangible asset would be estimated and the carrying amount of concession intangible asset would be written down to the recoverable amount and the amount of the write-down would be charged against the results of operations. Intangible asset arising from a services concession arrangement of \$7,770,223 is fully impaired during the year ended December 31, 2017.

### **Risk Factors**

Due to the nature of its business, an investment in the Group should be considered highly speculative. Such

investment will be subject to certain material risks and investors should not invest in the Group unless they can afford to lose their entire investment. The following is a description of certain risks and uncertainties that may affect the business of the Group. Readers should note that this list is not a definitive list of all risk factors associated with an investment in the Group.

#### *Unfavorable weather conditions*

The Group's ability to attract visitors to Swallow Gully is influenced by weather conditions. Adverse weather conditions may discourage visitors from participating in outdoor activities at Swallow Gully. Prolonged periods of adverse weather conditions (including, severe winters, conditions such as prolonged rain, fog and snow, sandstorms, other conditions resulting from changes in climate attributable to greenhouse gases or otherwise) could have a material adverse effect on the Group's financial condition and results of operation.

#### *Natural disasters*

The Group's operation of Swallow Gully will be adversely affected by natural disasters such as earthquakes or landslides. Swallow Gully is located in Sichuan Province of the PRC, which is an area prone to earthquakes, landslides and other natural disasters. If any of these natural disasters takes place in or near Swallow Gully, it may damage infrastructure or improvements existing or to be developed on or near Swallow Gully, directly impacting the operations of the Group by restricting visitors from coming to Swallow Gully, delay or postpone planned development or construction of certain projects, and discourage visitors from traveling to the area in general and reduce the number of visitors to the Swallow Gully. In 2009, there was a landslide that occurred in the Swallow Gully and Gongga was required to remedy the effects caused by the landslide. Therefore, a natural disaster taking place in or near Swallow Gully may force the Group to suspend its operations for an indefinite period and cause the Group to incur additional expenditures, for which the Group is currently unable to obtain adequate insurance, and give rise to a material adverse effect on its financial condition and results of operation.

#### *Competition from nearby scenic tourism areas*

The Group faces competition from nearby scenic tourism areas. There are a number of AAAAA and AAAA scenic tourism areas in western and northern Sichuan, including the Hailuo Valley scenic area. Located approximately 30 minutes away from Swallow Gully, Hailuo Valley is the oldest commercial scenic park near Gongga Mountain and operates a 3.5 km cable car facility. Hailuo Valley attracted numerous tourists every year. Hailuo Valley Administration is the governmental agency that has jurisdiction over both the Hailuo Valley scenic area and Swallow Gully. Management believes that the success of Hailuo Valley's operation may be beneficial to Swallow Gully and that it may benefit from Hailuo Valley's experience in administering Hailuo Valley and the potential for sharing certain infrastructure owned or operated by the Hailuo Valley Administration. However, due to proximity and relative similarity, there will be competition between Hailuo Valley and Swallow Gully for tourists and the resources of Hailuo Valley Administration, and Swallow Gully may be disadvantaged in such competition as a new and less developed entrant into the market.

#### *Changes in Chinese laws and regulations*

Gongga is subject to a wide variety of laws and regulations relating to scenic area administration, natural reserve area protection, land use and development, and environmental compliance and permitting obligation. Such laws and regulations could change in a manner that materially and adversely affects the Group's ability to conduct its business and to implement desired expansions and improvements to its facilities.

#### *Changes in Hong Kong laws and regulations*

The Group has applied the following amendments to IFRSs for the first time in the current year.

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRS Standards 2014 - 2016 Cycle

Except as disclosed below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

## Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 29. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 29, the application of these amendments has had no impact on the Group's consolidated financial statements.

The Group has not early applied the following new and revised to IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments <sup>1</sup>
IFRS 15	Revenue from Contracts with Customers and the related Amendments <sup>1</sup>
IFRS 16	Leases <sup>2</sup>
IFRS 17	Insurance Contracts <sup>4</sup>
IFRIC 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
IFRIC 23	Uncertainty over Income Tax Treatments <sup>2</sup>
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts <sup>1</sup>
Amendments to IFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement <sup>2</sup>
Amendments to IAS 28	Long-term Interests in Associates and Joint Venture <sup>2</sup>
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014 - 2016 Cycle <sup>1</sup>
Amendments to IAS 40	Transfers of Investment Property <sup>1</sup>
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015 - 2017 Cycle <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2021.

Except for the new IFRSs mentioned below, management anticipates that the application of all other new and amendments to IFRSs and interpretations will have no material impact on the Group's consolidated financial statements in the foreseeable future.

## IFRS 9 *Financial Instruments*

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets. Key requirements of IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 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 profit or loss. All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under IFRS 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, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at December 31, 2017, the directors of the Company anticipate the following potential impact on initial application of IFRS 9.

For the structured deposits as disclosed in Note 11, management anticipates that the Group would revoke its previous designation of financial assets as measured at fair value through profit or loss at initial application date. The contractual cash flows of these deposits do not represent solely payments of principal and interest on the principal outstanding, and accordingly, it is required to be classified at financial assets at fair value through profit or loss.

Except for financial assets which are subject to expected credit loss model under IFRS 9, all other financial assets and financial liabilities will continue to be measured on the same bases currently measured under IAS 39.

In general, management anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the management, if the expected credit loss model were to be applied by the Group, an immaterial amount of impairment loss would be recognised by the Group as at 1 January 2018, mainly attributable to expected credit loss position on trade receivables. Such impairment recognised under expected credit loss model would increase the opening accumulated losses at January 1, 2018.

### **IFRS 15 Revenue from Contracts with Customers**

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

The core principle of IFRS 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 IFRS 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 IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

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

Management anticipates that the application of IFRS 15 in the future may result in more disclosures, however, management does not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods. The directors of the Company intend to apply the limited retrospective method with cumulative effect on initial application recognised in opening balance of equity at January 1, 2018.

#### **IFRS 16 Leases**

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

IFRS 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 Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of IFRS 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 by the Group.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 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 IFRS 16.

As at December 31, 2017, the Group has non-cancellable operating lease commitments of \$184,313 as disclosed in Note 23. A preliminary assessment indicates that the application of new requirements may result in changes in measurement, presentation and disclosure. However, management is still assessing the impact and performing a detailed review of adoption of this new accounting standard on its financial statements.

#### **Additional Information**

Additional information relating to the Group can also be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following management's discussion and analysis of financial condition and results of operations (the "MD&A") of Total Wonder Enterprises Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is prepared for the years ended December 31, 2016 and 2015. The MD&A should be read in conjunction with the audited consolidated financial statements and related notes thereto for the years ended December 31, 2016 and 2015 of the Group and the accompanying management information circular. These financial statements were prepared in accordance with International Financial Reporting Standards. The results of operations, business prospects and financial condition of the Group will be affected by certain risk factors described elsewhere in this document.*

*All dollar figures stated in this MD&A are expressed in Canadian dollars, unless otherwise specified. Information contained herein includes any significant developments to 20 December 2018.*

### **Forward-looking statement**

This MD&A includes certain forward-looking information and forward-looking statements (collectively "Forward-Looking Statements") concerning the future performance of the Group's business, operations and financial performance and condition, as well as management's objectives, strategies, beliefs and intentions. Forward-Looking Statements are frequently identified by such words as "may", "will", "plan", "expect", "anticipate", "estimate", "intend" and similar words referring to future events and results. Some of the Forward-Looking Statements in this MD&A are included in the section entitled "2017 Outlook: Repositioning of business focus and cableway approval process". Some of these Forward-Looking Statements express management's beliefs and intentions relating to the future operational direction of the Company, such as "we plan to add new revenue streams on top of our traditional revenue from tours and individual visitors"; "align our sales & marketing efforts to the tourism policies to further promote Swallow Gully"; "seek sponsorships and cooperation from the commercial sectors for programs such as public square dancing and working with local government on school education programs"; "create new promotional activities and products for the existing and new visitor segments"; and "the management is of the view that a preliminary decision on the approval for construction of the cableway may likely be rendered in the near future." Forward-Looking Statements are based on the current opinions and expectations of management based on currently available information. All Forward-Looking Statements are inherently uncertain and subject to a variety of risks and uncertainties, such as unfavorable weather conditions, natural disasters, competition from nearby scenic tourism areas, changes in the tourism promotion policies of Mainland China, acceptability of terms of arrangements with sponsors or local governments on new programs and initiatives, acceptability of our new programs and initiatives by the consumer audience that we are targeting, costs related to implementing new programs and initiatives to add new revenue streams, availability of working capital and financial resources to implement and sustain programs and initiatives once they have been started, changes in Chinese laws and regulations, all as described in various parts of this MD&A and the "Risk Factors" section in the accompanying management information circular. Such Forward-Looking Statements are based on a number of assumptions, including but not limited to, information or statements concerning the Group's expectations for its ability to raise capital and meet the Group's obligations. Should one or more risks and uncertainties materialize or should any assumptions prove incorrect, then actual events or results may differ materially from those expressed or implied in the Forward Looking-Statements. Investors are cautioned against placing undue reliance thereon. The Group undertakes no obligation to revise or update the Forward-Looking Statements, except as required by applicable law.

### **Overview**

The principal activities of the Group are developing and operating Swallow Gully Scenic Area ("Swallow Gully"), a large scale tourist attraction site in Sichuan Province, the People's Republic of China (the "PRC").

The Company was incorporated pursuant to the British Virgin Islands Business Corporations Act on November 21, 2013. The Company's head office and its registered office is located at British Virgin Islands. Other than serving as a holding company for all the issued and outstanding share capital of Merit Sign Investments Limited ("Merit Sign"), a company incorporated under the laws of Hong Kong, the company does not carry on any active business.

#### *Fourth Quarter 2016 Operating Results*

The Group's revenue totaled \$358,218 for the fourth quarter, compared to \$339,223 in the prior year quarter, up 6%. The revenue increase was comprised of 44% admission ticket sales growth; 17% growth from attraction ticket sales and 28% growth from bubble hotels business.

The Group revenue growth was led by the historical highest number of 24,560 visitors in the fourth quarter, thanks to 7 consecutive National Holidays in China in the fourth quarter and a number of activities such as "Colorful Forest Theme Activities" and "Play with Snow in Swallow Gully", which were successfully launched during this period.

Total operating costs were \$1.9 million in the fourth quarter, relative to \$1.4 million in the prior year period.

The net loss for the fourth quarter of 2016 slightly decreased by 0.3% for the fourth quarter of 2015.

#### *Overall Performance 2016*

In 2016, we reported a net loss of \$3.79 million, a substantial decrease of 84.0% as compared to the same period in 2015. The decrease was mainly due to the one time occurrence of the cost of the qualifying transaction including Alpha Peak Leisure Inc. in 2015.

#### Revenue

The Group's revenue consists of construction services under a service concession arrangement, admission ticket sales, attraction ticket sales and bubble hotels business. Revenue for the full year increased 55% to \$1,647,025, mainly due to the number of visitors that increased by 16,679 to 64,597 in 2016.

Revenue with the construction services under a service concession arrangement increased over 3 times to \$730,811. The segment's growth was due to investments in road infrastructure and pavements in order to provide a safety environment to attract the visitation.

Revenues with admission ticket sales increased by 8% to \$347,806. The segment's growth which reflected over 70% of revenues growth from the increase in number of visitation being offset by the decline in average admission ticket fee. The operations were adversely affected by landslides and bad weather from June to August of 2016, the drop of spending per visitor from \$19 to \$14 during 2016 due to the half route admission & attraction ticket fee was an offsetting factor.

Revenues with attraction ticket sales recorded a stagnant growth which reflected about 98% of revenues growth from the increase in number of visitation being offset by the decline in average attraction ticket fee. The operations were adversely affected by landslides and bad weather from June to August of 2016, the drop of spending per visitor from \$19 to \$14 during 2016 due to the half route admission & attraction ticket fee was an offsetting factor.

Revenue with bubble hotels business increased by 21% to \$56,178 included:

- In 2015, the bubble hotels business was closed from January to April because of cold temperature, but there was a full year operation in 2016. Consequently, the overall room/night increased by 25% on a yearly basis.
- In 2016, the occupancy rate of 17% remained consistent at the 2015 level.

### Operating Expenses

Marketing expenses were \$1.46 million in 2016, a substantial increase of 125.1% from the same period in 2015. Driving the increase in reported expenses were the Group's increased marketing program spending and the payment of RMB 3 million to the strategic partner, China Travel Service (HK) Ltd.

Promotional expenses were \$263,928 in 2016, which was 63% higher than in 2015. The increase in spending was mainly promoted the new brand products and activities to attract the visitation.

Promotional expenses were 28.8% of adjusted revenue in 2016 as compared to 18.2% in 2015. The promotional expenses to adjusted revenue ratio is a measurement of the effectiveness of our advertising campaign depends on several factors such as the competitive rivalry; business size and its growth stage. This ratio will fluctuate in any given period depending on the timing of program spending.

Administrative expenses were \$1.80 million in 2016, which was 42.6% lower than in 2015. The decrease in spending was mainly due to the full year running expenses of Hong Kong management office.

Administrative expenses were 109.5% of revenue in 2016 as compared to 296.4% in 2015. The decrease has been the result of higher revenue.

### **Factors Affecting Results of Operations**

#### *Foreign Currency*

The majority of the Group's revenue and expenses are denominated in Renminbi ("RMB") and generated through its wholly owned operating subsidiary, Gongga Terraferma Limited ("Gongga"), a company incorporated under the laws of the PRC, which is the developer and operator of Swallow Gully. Meanwhile, some of the Group's expenses are denominated in Hong Kong dollars ("HKD") and generated through its wholly owned subsidiary, Merit Sign, a company incorporated in Hong Kong, which provides management services to the Group. Accordingly, the results of operations are impacted by the fluctuation of RMB and HKD against Canadian dollars ("CAD"). The average exchange rate of RMB against CAD for the years ended December 31, 2016 and 2015 was RMB 1 = CAD 0.1987 and RMB 1 = CAD 0.2065 respectively. While that for HKD against CAD for the years ended December 31, 2016 and 2015 was HKD 1 = CAD 0.1703 and HKD 1 = CAD 0.1663 respectively.

#### *Seasonality*

The tourism business is seasonal in nature. Based on historical results, we generally expect our revenue to be lower during the first calendar quarter of each year than during each of the three subsequent quarters, with the second and third quarters producing the strongest revenue of the year.

### **Results of Operations – Year Ended December 31, 2016 compared to December 31, 2015**

#### **Revenue**

<b>For the year ended December 31,</b>			
	<b>% of</b>		<b>% of</b>
<b>2016</b>	<b>Total</b>	<b>2015</b>	<b>Total</b>

	\$		\$	
Construction services under a service concession arrangement	730,811	44.4%	173,065	16.3%
Admission ticket sales	347,806	21.1%	321,697	30.3%
Attraction ticket sales	564,893	34.3%	552,903	52.1%
Others	3,515	0.2%	12,649	1.3%
<b>Total</b>	<b>1,647,025</b>	<b>100.0%</b>	<b>1,060,314</b>	<b>100.0%</b>
Less:				
Construction services under a service concession arrangement	(730,811)		(173,065)	
<b>Adjusted total</b>	<b>916,214</b>		<b>887,249</b>	
<b>Number of visitors</b>	<b>64,597</b>		<b>47,918</b>	
<b>Spending per visitor</b>	<b>14</b>		<b>19</b>	

For the year ended December 31, 2016, total revenue was 55.3% higher than the same period in the last year, with the revenue derived from the construction services under a service concession arrangement of RMB 3.68 million.

Revenue from construction services for the year ended December 31, 2016 increased compared to last year. Revenue from construction services is accounted for in accordance with IAS 11 *Construction Contracts*. The exact same amount of revenue and cost is recognized by reference to the stage of completion for the construction in Swallow Gully as at December 31, 2016, according to IAS 11 (see note 5 to the audited consolidated financial statements). As such, the revenue and cost from construction services will offset with each other. Excluding revenue from construction services, the adjusted revenue was \$916,214 for the year ended December 31, 2016 compared to \$887,249 for the same period in the year prior, reflecting an increase of \$28,965. The increase was attributed to the increase in the number of visitors.

Swallow Gully attracted 64,597 visitors for the year ended December 31, 2016, compared to 47,918 visitors for the same period in the previous year. The increase was mainly due to better marketing efforts and signing on additional travel agents.

The spending per visitor for the year ended December 31, 2016 was \$14, compared to \$19 for the same period in the previous year. The decrease was largely due to the natural disaster during July and August of 2016, resulting in the drop of our visitations. It was expected to use the price adjustment strategy to stabilize the number of visitors, to remain competitive.

#### Cost of Sales/Services

	For the year ended December 31,			
	2016	% of Total	2015	% of Total
	\$		\$	
Provision of construction services under a service concession arrangement	730,811	26.9%	173,065	9.2%
Amortization of intangible assets	269,824	9.9%	259,957	13.8%
Depreciation	556,053	20.4%	528,159	28.0%
Salary	269,050	9.9%	283,997	15.0%
Insurance expenses	60,399	2.2%	64,871	3.4%
Transportation	190,348	7.0%	197,275	10.5%
Meal and entertainment	15,581	0.6%	26,480	1.4%
Sales rebate and others	629,028	23.1%	353,672	18.7%
<b>Total</b>	<b>2,721,094</b>	<b>100.0%</b>	<b>1,887,476</b>	<b>100.0%</b>

Less:

Provision of construction services under a service concession arrangement	(730,811)	(173,065)
<b>Adjusted total</b>	<b><u>1,990,283</u></b>	<b><u>1,714,411</u></b>

The cost of sales/services increased by 44.2% to \$2,721,094 for the year ended December 31, 2016, compared to \$1,887,476 for the same period in the previous year. This was mainly because of the increase in the provision of construction services of \$557,746. Excluding this portion, the adjusted cost of sales/services increased by \$275,872 to \$1,990,283 for the year ended December 31, 2016, compared to \$1,714,411 for the same period in the year prior.

The more notable components of the year-over-year change in cost of sales/services included:

- For the year ended December 31, 2016, sales rebate and other expenses of \$629,028 increased \$275,356 or 77.9% from the year ended December 31, 2015, largely due to the increase in sales rebate of \$203,050 paid to travel agents and the written off of consumable goods of \$130,616 incurred as a result of the change in PRC tax rule.

#### Gross Loss

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>Increase (decrease)</b>
	\$	\$	
Gross loss	1,074,069	827,162	29.8%

The gross loss increased by 29.8% to \$1,074,069 for the year ended December 31, 2016 up from \$827,162 for the same period in the year prior.

#### Other Income

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>Increase (decrease)</b>
	\$	\$	
Other income	151,629	171,819	-11.8%

Other income consists of imputed interest income on advances to a local authority, Hailuogou Authority (see note 8 to the audited consolidated financial statements), which was advanced in prior years, bank interest income and sundry income. For the year ended December 31, 2016, other income decreased by \$13,882 or 8.1% compared to the same period in the last year, representing the interest income derived from bank deposit decreasing as a result of the \$4.8 million bank deposit balances decreasing during the current year.

#### Marketing Expenses

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>Increase (decrease)</b>
	\$	\$	

Fee paid to China Travel Service (H.K.) Ltd.	598,345	-	100.0%
Promotional activities	263,928	161,475	63.4%
Staff costs and others	595,094	486,028	22.4%
Total	1,457,367	647,503	125.1%

Marketing expenses increased 125.1% to \$1,457,367 for the year ended December 31, 2016, compared to the same period of last year. The increase was mainly due to the new marketing initiatives and the services fee of \$598,345 paid and accrued to China Travel Service (H.K.) Ltd., in 2016 to promote awareness of the scenic sites and increase visitation.

### Other Gain and Loss

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>Increase (decrease)</b>
	\$	\$	
Other gain and (loss)	376,699	(1,533,047)	-124.6%

In the current year, we recorded foreign exchange gain of \$376,699 as compared to a loss of \$1.53 million for the same period last year. Other gain and loss comprises net exchange gain or loss. The year over year improvement in foreign exchange gain and loss is principally due to the result of much weaker RMB in relation to CAD and HKD throughout 2016. Exchange gain of CAD bank deposit amounted to \$136,991 and the exchange gain of translating HKD transactions into RMB of foreign subsidiaries amounted to \$239,708.

### Administrative Expenses

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>Increase (decrease)</b>
	\$	\$	
Administrative expenses	1,803,974	3,143,157	-42.6%

Administrative expenses primarily consist of director fees, professional fees, salaries and benefits, hydro and electricity and entertainment expenses.

Administrative expenses decreased 42.6% to \$1,803,974 for the year ended December 31, 2016 from \$3,143,157 for the same period in 2015.

### Net Loss

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>Increase (decrease)</b>
	\$	\$	
Net loss	3,862,716	6,353,410	-39.2%
Less:			
(Gain)/loss on revaluation of property,	(1,472,915)	485,317	

plant and equipment			
Reversal of deferred tax liability on revaluation and impairment loss of property, plant and equipment	(1,167,680)	121,329	
Impairment loss of property, plant and equipment	6,143,637	-	
Non-cash unrealized exchange (gain) loss	4,893,588	(6,028,852)	
<b>Adjusted net loss</b>	<b>12,259,346</b>	<b>688,546</b>	<b>1,680.5%</b>

Net loss decreased 39.2% to \$3,862,716 for the year ended December 31, 2016, compared to last year. The decrease was mainly due to the non-occurrence of qualifying transaction cost in 2016. Excluding the qualifying transaction cost and foreign exchange gain or loss, the adjusted net loss decreased 39.2% to \$3,862,716 for the year ended December 31, 2016, compared to the same period of prior year. The increase was mainly due to the increase in marketing expenses and the administrative expenses mentioned above.

### Liquidity

The purpose of liquidity management is to ensure there is sufficient cash to meet all of the Group's financial commitments and obligations as they fall due. The Group believes that it has the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill its cash requirements in 2017. The Group's main source of funds is from admission and attraction ticket sales and cash on hand. The Group's use of funds is primarily for its operating expenses and investment in property, plant and equipment.

At present, there are no known demands, commitments, events or uncertainties that would adversely affect the trends and expected fluctuations in the Group's liquidity. Nowadays, the Group is going to enhance the free cash inflow by considering different financial modalities in 2017.

	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	\$	\$
Net cash used in operating activities	(3,118,104)	(4,427,229)
Net cash (used in) from investing activities	(784,044)	(366,740)
Net cash from financing activities	(317,342)	13,809,807
Effects of foreign exchange rate changes on cash	(392,497)	447,830
Net (decrease) increase in cash	(4,289,490)	9,015,838
Working capital	5,332,036	10,707,825

The net cash used in investing activities for the year ended December 31, 2016 consists of the acquisition of property, plant and equipment in the amount of \$808,116, offset by the bank interest income of \$24,072. The property, plant and equipment included attractions and improvement, motor vehicles and others (see note 4 to the audited consolidated financial statements).

The net cash from financing activities for the year ended December 31, 2015 merely represented the net proceeds from the private placement financing.

Effects of foreign exchange rate changes on cash representing the unrealized exchange gain (loss) arising on translation of bank balance of foreign subsidiaries, of which the functional currency is other currencies than CAD, the Group's presentation currency.

Working capital decreased from \$10,707,825 as at December 31, 2015 to \$5,332,036 as at December 31, 2016 mainly due to the continued operating loss and the acquisition of property, plant and equipment.

### Capital Expenditures

The Group's capital expenditures primarily relate to its investment in the property, plant and equipment required in its business operations. Management expects to use a portion of the net proceeds from the private placement financing to further invest in capital expenditures.

### Off-Balance Sheet Arrangements

The Group has no off-balance sheet arrangements.

### Related Party Balances and Transactions

As at December 31, 2016, the Group had a current and non-current balance due to a shareholder, CN Lifestyle Limited, in the amount of \$201,277 (2015: \$111,602) and \$ 2,075,712 (2015: \$2,147,511), respectively.

The Group had the following transactions with a shareholder and a related party:

	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	\$	\$
Interest payable to a shareholder	102,147	99,788
Management fee payable to a related party	40,867	19,956

### Financial Instruments and Other Instruments

The Group held cash of \$7.7 million on its audited consolidated statement of financial position as at December 31, 2016 and does not have any cash equivalents or invested assets. The Group does not currently utilize any other instruments such as derivative financial instruments to reduce its exposure. All of the Group's financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost.

The Group, through its financial instruments, is exposed to various risks as discussed below.

#### *Currency risk*

The Group's foreign currency risk exposure is mainly derived from bank balances, amount due to a shareholder and loan from a shareholder denominated in foreign currency. The management monitors foreign exchange fluctuation by closely monitoring the movement of foreign currency rate. The carrying amounts of the Group's foreign currency denominated bank balances were \$7.0 million and \$11.7 million as at December 31, 2016 and 2015 respectively, and liabilities were \$3.9 million and \$5.3 million as at December 31, 2016 and 2015 respectively.

Management expects market forces are exerting strong pressure on the RMB to depreciate against CAD, drop 3% in 2017. Management will closely monitor the trend depreciation of the RMB and assessing its relevant impact on our performance, will consider the currency hedging should the need arises.

#### *Interest rate risk*

Fluctuation in interest rate could impact the results of operations of the Group. The Group is exposed to cash flow interest rate risk in relation to the bank balances and loan from a shareholder. Interest rate risk is concentrated on the fluctuation of the Hong Kong Prime rate for all periods' presented. The Group currently does not have any interest rate hedging policy in relation to cash flow interest rate risks. Management monitors this risk on ongoing basis and will consider hedging interest rate should the need arises.

#### *Credit risk*

As at December 31, 2016 and 2015, the balance that is subject to significant concentration of credit risk is the advances to a local authority. Management of the Group considered the credit risk on this balance is limited because Gongga had entered into a 40-year service concession arrangement with the local authority in 2007 (see note 5 to the audited consolidated financial statements). As at December 31, 2016 and 2015, the Group's maximum exposure to credit risk which will cause financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position.

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Management of the Group considers that its credit risk is significantly reduced. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

### **Outstanding Shares and Share Options Information**

As at December 31, 2016, the Company had 39,772 ordinary shares equivalent \$13,551,884.

### **Critical Accounting Policies and Estimates**

This MD&A should be read in conjunction with the audited consolidated financial statements and related notes thereto for the years ended December 31, 2016 and 2015 of the Group. Note 2 to the audited consolidated financial statements outlines the significant accounting principles and policies used to prepare these consolidated financial statements. Accounting policies are critical if they rely on a substantial amount of judgment in their application or if they result from a choice between accounting alternatives and that choice has a material impact on reported results or financial position.

The key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

#### *Estimated impairment of advances to a local authority*

When there is objective evidence of impairment loss, management of the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between

the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. No impairment on advances to a local authority is considered necessary for the years ended December 31, 2016 and 2015.

#### *Valuation of property, plant and equipment*

Attractions and improvement and buildings included in the property, plant and equipment are revalued based on the valuation performed by an independent professional valuer. The determination of the valuation involves certain assumptions of market conditions. In relying on the valuation report, management of the Group has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions. Changes to these assumptions would result in changes in the valuation of the Group's property, plant and equipment and the corresponding adjustments to the amount of gain or loss arising on the revaluation of property, plant and equipment would be recognized in other comprehensive income.

#### *Useful lives and impairment assessment of property, plant and equipment*

Property, plant and equipment are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses. The estimation of their useful lives impacts the level of annual depreciation expense recorded. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying value would be written down to the recoverable amount and the amount of the write-down would be charged against the revaluation reserve in other comprehensive income or results of operations, according to the accounting policies of the Group. During the year ended December 31, 2016, an impairment loss of \$5,985,729 (2015: Nil) was recognised in other comprehensive income and reduced the corresponding revaluation surplus (see note 4 to the audited consolidated financial statements).

#### *Amortization and impairment assessment of concession intangible asset*

Amortization of concession intangible asset is calculated using straight-line basis over the period which commences from the date when the part of the tourist attraction site is available for use. The estimation of the useful life impacts the level of annual amortization expense recorded. At the end of each reporting period, the management of the Group would estimate future cash flows generated by the concession intangible asset and determine whether there is any indication on impairment. If such indication exists, the recoverable amount of the concession intangible asset would be estimated and the carrying amount of concession intangible asset would be written down to the recoverable amount and the amount of the write-down would be charged against the results of operations.

### **Risk Factors**

Due to the nature of its business, an investment in the Group should be considered highly speculative. Such investment will be subject to certain material risks and investors should not invest in the Group unless they can afford to lose their entire investment. The following is a description of certain risks and uncertainties that may affect the business of the Group. Readers should note that this list is not a definitive list of all risk factors associated with an investment in the Group.

#### *Unfavorable weather conditions*

The Group's ability to attract visitors to Swallow Gully is influenced by weather conditions. Adverse

weather conditions may discourage visitors from participating in outdoor activities at Swallow Gully. Prolonged periods of adverse weather conditions (including, severe winters, conditions such as prolonged rain, fog and snow, sandstorms, other conditions resulting from changes in climate attributable to greenhouse gases or otherwise) could have a material adverse effect on the Group's financial condition and results of operation.

#### *Natural disasters*

The Group's operation of Swallow Gully will be adversely affected by natural disasters such as earthquakes or landslides. Swallow Gully is located in Sichuan Province of the PRC, which is an area prone to earthquakes, landslides and other natural disasters. If any of these natural disasters takes place in or near Swallow Gully, it may damage infrastructure or improvements existing or to be developed on or near Swallow Gully, directly impacting the operations of the Group by restricting visitors from coming to Swallow Gully, delay or postpone planned development or construction of certain projects, and discourage visitors from traveling to the area in general and reduce the number of visitors to the Swallow Gully. In 2009, there was a landslide that occurred in the Swallow Gully and Gongga was required to remedy the effects caused by the landslide. Therefore, a natural disaster taking place in or near Swallow Gully may force the Group to suspend its operations for an indefinite period and cause the Group to incur additional expenditures, for which the Group is currently unable to obtain adequate insurance, and give rise to a material adverse effect on its financial condition and results of operation.

#### *Competition from nearby scenic tourism areas*

The Group faces competition from nearby scenic tourism areas. There are a number of AAAAA and AAAA scenic tourism areas in western and northern Sichuan, including the Hailuo Valley scenic area. Located approximately 30 minutes away from Swallow Gully, Hailuo Valley is the oldest commercial scenic park near Gongga Mountain and operates a 3.5 km cableway facility. Hailuo Valley attracted numerous tourists every year. Hailuo Valley Administration is the governmental agency that has jurisdiction over both the Hailuo Valley scenic area and Swallow Gully. Management believes that the success of Hailuo Valley's operation may be beneficial to Swallow Gully and that it may benefit from Hailuo Valley's experience in administering Hailuo Valley and the potential for sharing certain infrastructure owned or operated by the Hailuo Valley Administration. However, due to proximity and relative similarity, there will be competition between Hailuo Valley and Swallow Gully for tourists and the resources of Hailuo Valley Administration, and Swallow Gully may be disadvantaged in such competition as a new and less developed entrant into the market.

#### *Changes in Chinese laws and regulations*

Gongga is subject to a wide variety of laws and regulations relating to scenic area administration, natural reserve area protection, land use and development, and environmental compliance and permitting obligation. Such laws and regulations could change in a manner that materially and adversely affects the Group's ability to conduct its business and to implement desired expansions and improvements to its facilities.

#### **Additional Information**

Additional information relating to the Group can also be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following management's discussion and analysis of financial condition and results of operations (the "MD&A") of Total Wonder Enterprises Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is prepared for the nine months ended September 30, 2018. The MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements and related notes thereto for the nine months ended September 30, 2018, the audited consolidated financial statements for the years ended December 31, 2017 and 2016 of the Group and the accompanying management information circular. These unaudited interim condensed financial statements were prepared in accordance with International Financial Reporting Standards. The results of operations, business prospects and financial condition of the Group will be affected by certain risk factors described elsewhere in this document.*

*All dollar figures stated in this MD&A are expressed in Canadian dollars, unless otherwise specified. Information contained herein includes any significant developments to December 20, 2018.*

### **Forward-looking statement**

This MD&A includes certain forward-looking information and forward-looking statements (collectively "Forward-Looking Statements") concerning the future performance of the Group's business, operations and financial performance and condition, as well as management's objectives, strategies, beliefs and intentions. Forward-Looking Statements are frequently identified by such words as "may", "will", "plan", "expect", "anticipate", "estimate", "intend" and similar words referring to future events and results. Some of the Forward-Looking Statements in this MD&A are included in the section entitled "2018 Outlook: Repositioning of business focus and completing the preliminary offering of vacation package". Some of these Forward-Looking Statements express management's beliefs and intentions relating to the future operational direction of the Company, such as "to create a diversified tourism experience, as well as promoting a new tourism style"; "we will improve the overall planning scheme"; and "we will consult and work closely with local government to better promote Swallow Gully". Forward-Looking Statements are based on the current opinions and expectations of management based on currently available information. All Forward-Looking Statements are inherently uncertain and subject to a variety of risks and uncertainties, such as unfavorable weather conditions, natural disasters, competition from nearby scenic tourism areas, changes in the tourism promotion policies of Mainland China, acceptability of terms of arrangements with local governments on new programs and initiatives, acceptability of our new programs and initiatives by the consumer audience that we are targeting, costs related to implementing new programs and initiatives to add new revenue streams, availability of working capital and financial resources to implement and sustain programs and initiatives once they have been started, changes in Chinese laws and regulations, all as described in various parts of this MD&A and the "Risk Factors" section in the accompanying management information circular. Such Forward-Looking Statements are based on a number of assumptions, including but not limited to, information or statements concerning the Group's expectations for its ability to raise capital and meet the Group's obligations. Should one or more risks and uncertainties materialize or should any assumptions prove incorrect, then actual events or results may differ materially from those expressed or implied in the Forward Looking-Statements. Investors are cautioned against placing undue reliance thereon. The Group undertakes no obligation to revise or update the Forward-Looking Statements, except as required by applicable law.

## Overview

The principal activities of the Group are developing and operating the Swallow Gully Scenic Area (“Swallow Gully”), a large scale tourist attraction site in Sichuan Province, the People’s Republic of China (the “PRC”).

The Company was incorporated pursuant to the British Virgin Islands Business Corporations Act on November 21, 2013. The Company’s head office and its registered office is located at British Virgin Islands. Other than serving as a holding company for all the issued and outstanding share capital of Merit Sign Investments Limited (“Merit Sign”), a company incorporated under the laws of Hong Kong, the company does not carry on any active business.

### *Third Quarter 2018 Operating Results*

The Group’s revenue totaled \$72,944 for the third quarter compared to \$392,025 in the prior year quarter, down by 81.39%.

Total operating costs were \$0.8 million in the third quarter, relative to \$1.79 million in the prior year period. On an adjusted basis, total operating expenses were 1,095.4% of total revenue in 2018 as compared to 457.1% in 2017.

Net loss for the third quarter of 2018 decreased by 56.2% to \$576,013 from \$1,316,239 for the third quarter of 2017. The decrease was mainly due to the decrease of depreciation, amortization and also strengthen cost control for reduce all cost.

### 2018 Outlook: Repositioning of business focus and completing the preliminary offering of vacation package

For the year 2018, we will transform the previous tourism pattern, through the change of current scenic area’s service concept and product offering, to create a diversified tourism experience, as well as promoting a new tourism style. Under this world class environmental resources and the distinct culture of Kangba, we aim to create an international vacation resort -- Swallow Gully tourism cultural resort of Gongga Mountain, China.

In order to facilitate such change, our product offering and marketing efforts will focus on the followings:

**Operation and marketing:** our main target tourists are the parent-child family as well as middle-aged and young people with middle and high income such as the white-collar. These people, who have both the power of consumption and influence, are the future marketing target group of our scenic area.

In response to China’s tourism related policies and market demand, we will change the previous marketing aim to a more targeted marketing strategy, covering social media as well as traditional channels, to better leverage the influence of the new image of Swallow Gully.

In operation, we will mainly focus on providing resort service, to meet the tourists’ demand for the high mountain vacation. As well as encouraging add-on sales, to improve the overall income of the scenic area.

In the first half of the year, we’ve established partnerships with more than 20 social media platforms, and Swallow Gully’s content is now covered by most of those. The first draft of some scenic spots upgrading and transformation has been completed, and the overall planning and design work of the scenic area has started.

**Product offering:** The Company positions the scenic area as Swallow Gully tourism cultural resort of Gongga Mountain, highlighting the tourism and vacation aspects. The scenic area is a high mountain resort town, with wild luxury resort hotels, catering, outdoor recreation, science and natural education of kids, and sightseeing. Therefore, in 2018, the bubble hotel will be reconstructed, we will establish vacation restaurants, create outdoor parent-child products, and improve the IT system of the scenic area, so that tourists can experience a unique vacation experience.

In addition, we will improve the overall planning scheme of Swallow Gully tourism cultural resort, which is composed of the Swallow Gully scenic area and the tourism resort town, and we will consult and work closely with local government to better promote Swallow Gully.

## Factors Affecting Results of Operations

### Foreign Currency

The majority of the Group's revenue and expenses are denominated in Renminbi ("RMB") and generated through its wholly owned operating subsidiary, Gongga Terraferma Limited ("Gonga"), a company incorporated under the laws of the PRC, which is the developer and operator of Swallow Gully. Meanwhile, some of the Group's expenses are denominated in Hong Kong dollars ("HKD") and generated through its wholly owned subsidiary, Merit Sign Investments Limited, a company incorporated in Hong Kong, which provides management services to the Group. Accordingly, the results of operations are impacted by the fluctuation of RMB and HKD against Canadian dollars ("CAD"). The average exchange rate of RMB against CAD for the nine months ended September 30, 2018 and 2017 was RMB 1 = CAD 0.1979 and RMB 1 = CAD 0.1915, respectively. While that for HKD against CAD for the nine months ended September 30, 2018 and 2017 was HKD 1 = CAD 0.1647 and HKD 1 = CAD 0.1670, respectively.

### Seasonality

The tourism business is seasonal in nature. Based on historical results, we generally expect our revenue to be lower during the first calendar quarter of each year than during each of the three subsequent quarters, with the second and third quarters producing the strongest revenue of the year.

## Results of Operations – Nine Months Ended September 30, 2018 compared to December 31, 2017

### Revenue

	Sep 30, 2018	% of Total	Dec 31, 2017	% of Total
	\$		\$	
Admission ticket sales	115,115	30.7%	515,578	37.1%
Attraction ticket sales	238,527	63.5%	867,303	62.3%
Others	32,185	8.6%	8,668	0.6%
<b>Total</b>	<b>375,363</b>	<b>100.0%</b>	<b>1,391,549</b>	<b>100.0%</b>
Less:				
Construction services under a service concession arrangement	-		-	
<b>Adjusted total</b>	<b>375,363</b>		<b>1,391,549</b>	
<b>Number of visitors</b>	<b>3,901</b>		<b>102,003</b>	
<b>Spending per visitor (in \$)</b>	<b>18</b>		<b>14</b>	

For the nine months ended September 30, 2018, total revenue decreased by 73.03% to \$375,363, compared to \$1,391,549 for the previous year.

Swallow Gully attracted 20,312 visitors for the nine months ended September 30, 2018, compared to 102,003 visitors for the prior year, respectively. This year, the travel agency did not implement the rebate policy, resulting in fewer group visitors.

The spending per visitor for the nine months ended September 30, 2018 was \$18, compared to \$14 for the previous year, respectively. The increase was mainly due to the increase of the number of individual visitors who paid higher ticket price than tour group visitors and also the increase in the price of tickets.

### Cost of Sales/Services

	Sep 30, 2018	% of Total	Dec 31, 2017	% of Total
	\$		\$	
Amortization of intangible assets	3,034	0.7%	258,657	11.6%
Depreciation	80,171	17.8%	655,735	29.4%
Salary	176,446	39.1%	315,470	14.1%
Insurance expenses	64,615	14.3%	73,001	3.2%
Transportation	73,786	16.4%	217,830	9.8%
Others	52,997	11.7%	710,761	31.9%
<b>Total</b>	<b>451,049</b>	<b>100.0%</b>	<b>2,231,454</b>	<b>100.0%</b>
Less:				
Provision of construction services under a service concession arrangement	-		-	
<b>Adjusted total</b>	<b>451,049</b>		<b>2,231,454</b>	

Cost of sales/services decreased by \$1,780,405 to \$451,049 for the nine months ended September 30, 2018 compared to \$2,231,454 for the previous year. The decrease was mainly due to the decrease of depreciation and amortization during the period

### Gross Loss

	Sep 30, 2018	Dec 31, 2017	Decrease
	\$	\$	
Gross loss	75,686	839,905	90.99%

Gross loss for the nine months ended September 30, 2018 decreased by \$764,219 to \$75,686 compared to \$839,905 for the previous year.

## Other Income

	<u>Sep 30, 2018</u>	<u>Dec 31, 2017</u>	<u>Increase</u>
	\$	\$	
Other income	178,232	126,130	41.31%

Other income consists of imputed interest income on advances to a local authority, Hailuogou Authority (see note 5 to the unaudited interim condensed consolidated financial statements), which was advanced in prior years, bank interest income and sundry income. Other income increased by \$52,102 to \$182,406 for the nine months ended September 30, 2018, compared to \$126,130 for the previous year.

## Marketing Expenses

	<u>Sep 30, 2018</u>	<u>Dec 31, 2017</u>	<u>Decrease</u>
	\$	\$	
Marketing expenses	575,401	880,177	34.63%

Marketing expenses decreased 34.63% to \$575,401 for the nine months ended September 30, 2018, compared to the prior year. The decrease was mainly due to the reduction of rebate and advertising expenses.

## Administrative Expenses

	<u>Sep 30, 2018</u>	<u>Dec 31, 2017</u>	<u>Decrease</u>
	\$	\$	
Administrative expenses	799,519	2,483,632	67.81%

Administrative expenses primarily consist of director fees, professional fees, salaries and benefits, hydro and electricity and entertainment expenses.

Administrative expenses decreased by \$1,684,113 to \$799,519 for the nine months ended September 30, 2018 from \$2,483,632 for the prior year. The decrease was mainly due to the decrease in salary expenses and administrative expenses during this period.

## Other Gains

	<u>Sep 30, 2018</u>	<u>Dec 31, 2017</u>	<u>Decrease</u>
	\$	\$	
Foreign exchange gain	56,064	181,863	69.17%

Other gains comprises net foreign exchange gain. Net exchange gain decreased by \$125,799 to \$56,064 for the nine months ended September 30, 2018, compared to the prior year. The exchange gain was mainly due to the revaluation of CAD against RMB, resulting in an unrealized exchange gain incurred by one of the Group's subsidiaries, of which the functional currency is RMB. This subsidiary held a bank balance of approximately \$1.95million denominated in CAD as of September 30, 2018 (December 31, 2017: \$4.2 million).

## Income Tax Credit

	<b>Sep 30, 2018</b>	<b>Dec 31, 2017</b>	<b>Increase (decrease)</b>
	\$	\$	
Current tax	-	-	N/A
Deferred tax - current period	-	-	N/A

The statutory income tax rates were 26%, 16.5% and 25% in Canada, Hong Kong and the PRC, respectively. No provision for current income tax has been made for operations in Canada, Hong Kong and the PRC as the operations had no assessable profit for the nine months ended September 30, 2018 and 2017.

## Net Loss

	<b>2018</b>	<b>2017</b>	<b>Decrease</b>
	\$	\$	
Net loss	1,288,626	29,400,396	95.62%
Less:			
Impairment loss recognised in respect of intangible asset arising from a service concession arrangement	-	(7,770,223)	
Write-off in respect of property, plant and equipment	-	(7,471,811)	
Impairment loss of property, plant and equipment	-	(10,163,037)	
Non-cash unrealized exchange (gain) loss	(4,145)	(210,726)	
Adjusted net loss	<b>1,284,481</b>	<b>3,784,599</b>	66.06%

Net loss decreased by 95.62% to \$1,288,626 for the nine months ended September 30, 2018, compared to the prior year. The decrease was mainly due to the decrease of depreciation, amortization and also strengthening of cost controls.

## Liquidity

The purpose of liquidity management is to ensure there is sufficient cash to meet all of the Group's financial commitments and obligations as they fall due. The Group believes that it has the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill its cash requirements during the current financial year. The Group's main source of funds is from admission and attraction ticket sales and cash on hand. The Group's use of funds is primarily for its operating expenses and investment in property, plant and equipment.

	<b>Sep 30, 2018</b>	<b>Dec 31, 2017</b>
	\$	\$
Net cash used in operating activities	(1,919,581)	(2,354,909)
Net cash used in investing activities	578,222	(3210,188)
Net cash from financing activities	(298,919)	591,663
Effects of foreign exchange rate changes on cash	(11,657)	(29,040)
Net decrease in cash	(1,640,278)	(4,973,434)
Working capital	260,652	(203,027)

The net cash used in investing activities for the nine months ended September 30, 2018 included the acquisition of property, plant and equipment with an amount of \$579 and offset by the bank interest income of \$7,067. The main increase of investing activities due to the redemption part of structured deposits.

Effects of foreign exchange rate changes on cash represent the unrealized exchange loss arising on translation of bank balance of foreign subsidiaries, of which the functional currency is other currencies than CAD, the Group's presentation currency.

Working capital increased by \$463,679 from (\$203,027) as at December 31, 2017 to \$260,652 as at September 30, 2018 mainly due to the continued increasing operating loss.

## Capital Expenditures

The Group's capital expenditures primarily relate to its investment in the property, plant and equipment required in its business operations.

## Off-Balance Sheet Arrangements

The Group has no off-balance sheet arrangements.

## Related Party Balances and Transactions

As at September 30, 2018, the Group had a current and non-current balance due to related parties, Chong's Family, in the amount of \$2,052,064 (December 31, 2017: \$1,928,689).

The Group had the following transactions with a shareholder and a related party:

	<u>Sep 30, 2018</u>	<u>Dec 31, 2017</u>
	\$	\$
Interest payable to a shareholder	-	66,440
Interest payable to related parties	72,316	33,164
Management fee payable to a related party	-	31,347

### **Financial Instruments and Other Instruments**

The Group held cash of \$0.4 million on its interim condensed consolidated statement of financial position as at September 30, 2018 and does not have any cash equivalents or invested assets. The Group does not currently utilize any other instruments such as derivative financial instruments to reduce its exposure. All of the Group's financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost.

The Group, through its financial instruments, is exposed to various risks as discussed below.

#### *Currency risk*

The Group's foreign currency risk exposure is mainly derived from bank balances, and amounts due to a shareholder denominated in foreign currency. Management monitors foreign exchange fluctuation by closely monitoring the movement of foreign currency rate. The carrying amounts of the Group's foreign currency denominated bank balances were \$1.7 million and \$2.0 million as at September 30, 2018 and December 31, 2017, respectively, and liabilities were \$3.2 million and \$4.8 million as at September 30, 2018 and December 31, 2017, respectively.

Management expects a controlled, gradual depreciation on RMB against other major currencies including CAD in the year 2018. This may have minimal unfavorable effects on our results of operations for the year ending December 31, 2017 as majority of the Group's revenues and assets are in RMB denomination.

#### *Interest rate risk*

Fluctuation in interest rate could impact the results of operations of the Group. The Group is exposed to cash flow interest rate risk in relation to the bank balances and loan from a shareholder. Interest rate risk is concentrated on the fluctuation of the Hong Kong Prime rate for all periods' presented. The Group currently does not have any interest rate hedging policy in relation to cash flow interest rate risks. Management monitors this risk on ongoing basis and will consider hedging interest rate should the need arises.

#### *Credit risk*

As at September 30, 2018 and December 31, 2017, the balance that is subject to significant concentration of credit risk is the advances to a local authority. Management of the Group considered the credit risk on this balance is limited because Gongga had entered into a 40-year service concession arrangement with the local authority in 2007 (see note 5 to the unaudited interim condensed consolidated financial statements). As at September 30, 2018 and December 31, 2017, the Group's maximum exposure to credit risk which will cause financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position.

In order to minimize the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management of the Group considers that its credit risk is significantly reduced. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

### **Outstanding Shares and Share Options Information**

As at September 30, 2018 and at the date of this MD&A, the Company had 39,773 ordinary shares equivalent CAD\$15,291,884.

### **Critical Accounting Policies and Estimates**

This MD&A should be read in conjunction with the audited consolidated financial statements and related notes thereto for the nine months ended September 30, 2018 and the years ended December 31, 2017 of the Group. Note 2 to the audited consolidated financial statements outlines the significant accounting principles and policies used to prepare these consolidated financial statements. Accounting policies are critical if they rely on a substantial amount of judgment in their application or if they result from a choice between accounting alternatives and that choice has a material impact on reported results or financial position.

The key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

#### *Estimated impairment of advances to a local authority*

When there is objective evidence of impairment loss, management of the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. No impairment on advances to a local authority is considered necessary for the nine months ended September 30, 2018 and 2017.

#### *Valuation of property, plant and equipment*

Attractions and improvement and buildings included in the property, plant and equipment were revalued based on income approach. The management concluded that there was no material difference between the fair value of the property, plant and equipment measured at revaluation basis and their carrying amounts as of September 30, 2018, accordingly, no revaluation is performed for these assets.

#### *Useful lives and impairment assessment of property, plant and equipment*

Property, plant and equipment are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses. The estimation of their useful lives impacts the level of annual depreciation expense recorded. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment,

the relevant asset's carrying value would be written down to the recoverable amount and the amount of the write-down would be charged against the revaluation reserve in other comprehensive income or results of operations, according to the accounting policies of the Group.

#### *Amortization and impairment assessment of concession intangible asset*

Amortization of concession intangible asset is calculated using straight-line basis over the period which commences from the date when the part of the tourist attraction site is available for use. The estimation of the useful life impacts the level of annual amortization expense recorded. At the end of each reporting period, the management of the Group would estimate future cash flows generated by the concession intangible asset and determine whether there is any indication on impairment. If such indication exists, the recoverable amount of the concession intangible asset would be estimated and the carrying amount of concession intangible asset would be written down to the recoverable amount and the amount of the write-down would be charged against the results of operations.

#### **Risk Factors**

Due to the nature of its business, an investment in the Group should be considered highly speculative. Such investment will be subject to certain material risks and investors should not invest in the Group unless they can afford to lose their entire investment. The following is a description of certain risks and uncertainties that may affect the business of the Group. Readers should note that this list is not a definitive list of all risk factors associated with an investment in the Group.

#### *Unfavorable weather conditions*

The Group's ability to attract visitors to Swallow Gully is influenced by weather conditions. Adverse weather conditions may discourage visitors from participating in outdoor activities at Swallow Gully. Prolonged periods of adverse weather conditions (including, severe winters, conditions such as prolonged rain, fog and snow, sandstorms, other conditions resulting from changes in climate attributable to greenhouse gases or otherwise) could have a material adverse effect on the Group's financial condition and results of operation.

#### *Natural disasters*

The Group's operation of Swallow Gully will be adversely affected by natural disasters such as earthquakes or landslides. Swallow Gully is located in Sichuan Province of the PRC, which is an area prone to earthquakes, landslides and other natural disasters. If any of these natural disasters takes place in or near Swallow Gully, it may damage infrastructure or improvements existing or to be developed on or near Swallow Gully, directly impacting the operations of the Group by restricting visitors from coming to Swallow Gully, delay or postpone planned development or construction of certain projects, and discourage visitors from traveling to the area in general and reduce the number of visitors to the Swallow Gully. In 2009, there was a landslide that occurred in the Swallow Gully and Gongga was required to remedy the effects caused by the landslide. Therefore, a natural disaster taking place in or near Swallow Gully may force the Group to suspend its operations for an indefinite period and cause the Group to incur additional expenditures, for which the Group is currently unable to obtain adequate insurance, and give rise to a material adverse effect on its financial condition and results of operation.

#### *Competition from nearby scenic tourism areas*

The Group faces competition from nearby scenic tourism areas. There are a number of AAAAA and AAAA scenic tourism areas in western and northern Sichuan, including the Hailuo Valley scenic area. Located approximately 30 minutes away from Swallow Gully, Hailuo Valley is the oldest commercial scenic park near Gongga Mountain and operates a 3.5 km cableway facility. Hailuo Valley attracted numerous tourists every year. Hailuo Valley Administration is the governmental agency that has jurisdiction over both the Hailuo Valley scenic area and Swallow Gully. Management believes that the success of Hailuo Valley's operation may be

beneficial to Swallow Gully and that it may benefit from Hailuo Valley's experience in administering Hailuo Valley and the potential for sharing certain infrastructure owned or operated by the Hailuo Valley Administration. However, due to proximity and relative similarity, there will be competition between Hailuo Valley and Swallow Gully for tourists and the resources of Hailuo Valley Administration, and Swallow Gully may be disadvantaged in such competition as a new and less developed entrant into the market.

#### *Changes in Chinese laws and regulations*

Gonga is subject to a wide variety of laws and regulations relating to scenic area administration, natural reserve area protection, land use and development, and environmental compliance and permitting obligation. Such laws and regulations could change in a manner that materially and adversely affects the Group's ability to conduct its business and to implement desired expansions and improvements to its facilities.

#### *Changes in Hong Kong laws and regulations*

The Group has applied the following amendments to IFRSs for the first time in the current year.

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRS Standards 2014 - 2016 Cycle

Except as disclosed below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### **Amendments to IAS 7 Disclosure Initiative**

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The Group has not early applied the following new and revised to IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments <sup>1</sup>
IFRS 15	Revenue from Contracts with Customers and the related Amendments <sup>1</sup>
IFRS 16	Leases <sup>2</sup>
IFRS 17	Insurance Contracts <sup>4</sup>
IFRIC 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
IFRIC 23	Uncertainty over Income Tax Treatments <sup>2</sup>
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts <sup>1</sup>
Amendments to IFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to IFRS 10	Sale or Contribution of Assets between an Investor and

	and IAS 28	its Associate or Joint Venture <sup>3</sup>
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement <sup>2</sup>	
Amendments to IAS 28	Long-term Interests in Associates and Joint Venture <sup>2</sup>	
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014 - 2016 Cycle <sup>1</sup>	
Amendments to IAS 40	Transfers of Investment Property <sup>1</sup>	
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015 - 2017 Cycle <sup>2</sup>	

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.

4 Effective for annual periods beginning on or after 1 January 2021.

Except for the new IFRSs mentioned below, management anticipates that the application of all other new and amendments to IFRSs and interpretations will have no material impact on the Group's consolidated financial statements in the foreseeable future.

### **IFRS 9 *Financial Instruments***

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets. Key requirements of IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 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 profit or loss. All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under IFRS 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, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at December 31, 2017, the directors of the Company anticipate the following potential impact on initial application of IFRS 9.

For the structured deposits as disclosed in Note 11, management anticipates that the Group would revoke its previous designation of financial assets as measured at fair value through profit or loss at initial application date. The contractual cash flows of these deposits do not represent solely payments of principal and interest on the principal outstanding, and accordingly, it is required to be classified at financial assets at fair value through profit or loss.

Except for financial assets which are subject to expected credit loss model under IFRS 9, all other financial assets and financial liabilities will continue to be measured on the same bases currently measured under IAS 39.

In general, management anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets

measured at amortised cost and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the management, if the expected credit loss model were to be applied by the Group, an immaterial amount of impairment loss would be recognised by the Group as at 1 January 2018, mainly attributable to expected credit loss position on trade receivables. Such impairment recognised under expected credit loss model would increase the opening accumulated losses at January 1, 2018.

### **IFRS 15 Revenue from Contracts with Customers**

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

The core principle of IFRS 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 IFRS 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 IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

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

Management anticipates that the application of IFRS 15 in the future may result in more disclosures, however, management does not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods. The directors of the Company intend to apply the limited retrospective method with cumulative effect on initial application recognised in opening balance of equity at January 1, 2018.

### **IFRS 16 Leases**

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

IFRS 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 Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other

operating lease payments are presented as operating cash flows. Upon application of IFRS 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 by the Group.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 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 IFRS 16.

As at December 31, 2017, the Group has non-cancellable operating lease commitments of \$184,313 as disclosed in Note 29. A preliminary assessment indicates that the application of new requirements may result in changes in measurement, presentation and disclosure. However, management is still assessing the impact and performing a detailed review of adoption of this new accounting standard on its financial statements.

### **Additional Information**

Additional information relating to the Group can also be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## APPENDIX 2 TO SCHEDULE B

### **RISK FACTORS FOR PURCHASERS**

Due to the nature of its business, an investment in Total Wonder Enterprises Limited (“**TWEL**”) should be considered highly speculative. Such investment will be subject to certain material risks and investors should not invest in TWEL unless they can afford to lose their entire investment. The following is a description of certain risks and uncertainties that may affect the business of TWEL. This list is not a definitive list of all risk factors associated with an investment in TWEL and other events could arise that have a material adverse effect on the business of TWEL.

Capitalized terms not defined herein have the means ascribed thereto in the Management Information Circular (the “**Circular**”) of Alpha Peak Leisure Inc. (the “**Company**”) to which this Appendix 2 to Schedule B is attached. Unless the context otherwise requires, “**TWEL**” refers to TWEL and its subsidiaries.

#### **Risks to Related to the Purchase of TWEL Shares by Purchasers**

##### *Possible failure to realize anticipated benefits of the transaction*

There can be no assurance that the anticipated benefits of the sale of TWEL Shares to the Purchasers will materialize. It is possible that the risks and uncertainties described in the Circular will arise and become material to such an extent that some or all of the anticipated benefits of the Transaction will never materialize or will be nullified.

##### *TWEL not a publicly traded company*

Upon completion of the Transaction, TWEL will not be listed on any stock exchange. As such, shareholders of TWEL will not be able to sell their shares in the public market unless TWEL becomes a publicly traded company. The Company understands that TWEL does not currently intend to be a publically traded company. There is no assurance that TWEL will ever become a publically traded company.

#### **Risks Related to TWEL’s Business**

**The operating subsidiaries of TWEL are subject to a wide variety of laws and regulations relating to scenic area administration, natural reserve area protection, land use and development, and environmental compliance and permitting obligations administered by numerous PRC government agencies with overlapping authorities.**

Various PRC government agencies have potential overlapping authority over Swallows’ Gully and the operations conducted within the area. On the one hand, GTL was granted certain concession rights (the “**Concession Rights**”) from Hailuo Valley Administration through the Framework Agreement, pursuant to which GTL holds an exclusive right to the development and operation of Swallows’ Gully for a term of 40 years (ending in 2046) and the Joint Venture Agreement to further implement the development and operation of Swallows’ Gully as authorized by the People’s Government of Ganzi Prefecture in its response on the matters regarding the joint development of Swallows’ Gully. On the other hand, the State Forestry Administration of the PRC (“**SFA**”) granted the right to administer the geological tourism activities of Swallows’ Gully to the Gongga Mountain National Nature Reserve Administration, in its approval letter to the Sichuan Provincial Bureau of Forestry dated September 10, 2010 regarding the overall planning of Swallows’ Gully scenic area of the Mountain National Nature Reserve. As a result, there are uncertainties and overlap concerning the administrative authority of Swallows’ Gully between Hailuo Valley Administration and the Gongga Mountain National Nature Reserve Administration. Therefore, the legality, validity or enforceability of the Joint Development Agreement entered into by Hailuo Valley Administration with GTL and certain provisions thereof may still be subject to potential legal challenges.

Failure to comply with national, provincial and local laws and regulations could result in the need for capital expenditures and/or the imposition of severe penalties or restrictions on operations that could adversely affect present and future operations and development at Swallows' Gully. In addition, such laws and regulations could change in a manner that materially and adversely affects TWEL's ability to conduct its business and to implement desired expansions and improvements to its facilities.

### ***Changes in Chinese laws and regulations***

GTL is subject to a wide variety of laws and regulations relating to scenic area administration, natural reserve area protection, land use and development, and environmental compliance and permitting obligations. Such laws and regulations could change in a manner that materially and adversely affects TWEL's ability to conduct its business and to implement desired expansions and improvements to its facilities.

### ***There are inconsistencies between the Framework Agreement and the Joint Development Agreement that could give rise to a dispute over the Concession Rights.***

The right to the operation and development of Swallows' Gully is granted by Hailuo Valley Administration to GTL through the Framework Agreement and the Joint Development Agreement. While the primary purpose and objective of both the Framework Agreement and the Joint Development Agreement are similar, there are some inconsistencies between the two documents and confusion with respect to the rights and obligations of TWEL may arise due to these inconsistencies. For example, in the Framework Agreement, the compensation for GTL's investment in the infrastructure on Swallows' Gully would be an entitlement to 80% of Swallows' Gully's after-tax admission ticket revenues, with the total compensation limited to the audited development cost of the infrastructure plus an investment return at the annual rate of 15%. The reference to this maximum limit was not included in the Joint Development Agreement and, as a result, it is not certain that such limit no longer applies. A written confirmation issued to GTL by Hailuo Valley Administration on October 16, 2014 stated that the compensation for TWEL's investment in the infrastructure would be an entitlement to 80% of Swallows' Gully's admission ticket fees for 40 years (ending in 2046), without reference to the maximum limit on return. It is TWEL's position that the maximum limit is no longer applicable. However, any difference in interpretation of TWEL's obligations or rights under the Framework Agreement or the Joint Development Agreement may result in unenforceability of or disputes over the Concession Rights and could have a material adverse effect on the results of operations of TWEL.

### ***TWEL's operation of Swallows' Gully will continue to be entirely dependent on its agreements with the Hailuo Valley Administration.***

GTL's main obligations under the Framework Agreement and the Joint Development Agreement are to develop and operate Swallows' Gully according to the specific requirements set forth under such agreements. If GTL fails to perform its obligations under the agreements, Hailuo Valley Administration has the right to unilaterally terminate the Framework Agreement and the Joint Development Agreement and terminate the Concession Rights. The termination or the non-renewal of the Concession Rights would have a material adverse effect on the operations of TWEL.

### ***TWEL may not be able to raise the funds necessary for all of the expansion works planned by TWEL and may be required to seek more debt or equity financing.***

The proposed development of TWEL's business will require significant capital expenditure. TWEL anticipates making significant capital expenditures in the future for maintenance and project development to enhance its operations and implement its growth initiatives. Thus TWEL may be required to conduct further debt and equity financing to complete some or all of its planned operational facility projects.

TWEL's ability to obtain required capital on acceptable terms is subject to a variety of uncertainties, including:

- limitations on its ability to incur additional debt, including as a result of prospective lenders' evaluations of its creditworthiness and pursuant to restrictions on incurrence of debt in existing and anticipated credit facilities, which prohibit TWEL from incurring additional indebtedness with only limited exceptions;

- investors' and lenders' perception of, and demand for, debt and equity securities of resort development companies, as well as the offerings of competing financing and investment opportunities in PRC by TWEL's competitors;
- conditions of the Canadian, U.S., European, Asian and other capital markets in which TWEL may seek to raise funds;
- TWEL's future results of operations, financial condition and cash flows;
- requirements for approval for certain transactions from PRC authorities;
- PRC governmental regulation of Swallows' Gully development and foreign investment in the scenic tourism development and leisure industries; and
- economic, political and other conditions in China and the Asian region overall.

TWEL cannot assure that necessary financing will be available in amounts or on terms acceptable to it, or at all. If TWEL fails to raise additional funds in such amounts and at such times as it may need, TWEL may be forced to reduce its expenditures and growth to a level that can be supported by its cash flow and delay the redevelopment of its projects, dispose of assets or suspend or reduce the operation of certain of its property. In that event, TWEL would be unable to complete its projects and could suffer a partial or complete loss of its investments in its projects. Failure to obtain sufficient financing could have a material adverse effect on TWEL.

*Certain of GTL's facilities have been constructed on lands that will require additional permits in order to comply with existing land use laws; if such permits are delayed or not granted at all, it would have an adverse effect on TWEL's operations.*

Certain of GTL's facilities have been developed on a parcel of collectively-owned land at Swallows' Gully. Pursuant to applicable PRC laws, the collectively-owned land shall not be used for any non-agriculture purpose. Pursuant to an approval letter ("**Land Approval**") issued on April 27, 2014 by Hailuo Valley Scenic Area Branch, Ganzi Tibetan Autonomous Prefecture Land and Resources Bureau ("**Hailuo Land Authority**"), GTL was authorized to temporarily use a portion of the collectively-owned land ("**Temporary Land**") for the purpose of constructing a temporary construction headquarters.

In its development of the Temporary Land, GTL constructed a parking lot, which is considered to be a commercial use of the Temporary Land as part of the operating facilities and a deviation from the approved use of the Temporary Land as approved by Hailuo Land Authority. GTL is currently consulting Hailuo Land Authority with respect to GTL acquiring the Temporary Land thereby transforming the use of the land from agriculture-use to commercial use. If the Hailuo Land Authority does not grant such transfer, or relevant PRC governmental authorities subsequently challenge GTL's current use of the Temporary Land, GTL's operations may be adversely affected.

GTL has also completed construction of a Tibetan culture and religious customs exhibition centre called Yaowang temple within Swallows' Gully, a dormitory building and an office building outside Swallows' Gully. Certain necessary governmental approvals, such as environmental impact assessment, conservation of water and soil plan approval, construction site pre-review, project approval, construction project site selection approval, completion approval for water and soil conservation, completion approval for environmental protection, fire safety completion approval, completion approval and receipt of house ownership certificate, are still pending for all of these premises. If GTL fails to receive the necessary government approvals or permits, competent PRC governmental authorities may subsequently order GTL to, among other things, vacate the premises, demolish or restore the premises to their original state within a limited time, and pay fines. Accordingly, if any of the pending governmental approvals are not obtained or are unduly delayed, it could have a material adverse effect on TWEL's operations.

***Necessary governmental approvals for certain Basic Infrastructure Facilities owned by Hailuo Valley Administration are still pending, which if further delayed or not obtained could have a material adverse effect on TWEL's operations.***

Although Hailuo Valley Administration, as the owner of the basic infrastructures such as road, water, electricity and sewage (the “**Basic Infrastructure Facilities**”), is responsible for obtaining the required permits and approvals for the construction and use of the Basic Infrastructure Facilities, GTL’s operation may be adversely affected if Hailuo Valley Administration fails to obtain such approvals in time as relevant PRC governmental authorities may subsequently order GTL to cease operations of such Basic Infrastructure Facilities before proper rectifications are in place pursuant to relevant PRC laws.

As of the date of the Circular, the occupation of certain forestry land without approval is ongoing. GTL, on behalf of Hailuo Valley Administration, is applying to the relevant forestry authority for approval of the constructed facilities on forestry land and the approval is still pending. If GTL fails to receive such government approval, competent PRC governmental authorities could subsequently order GTL to, among other things, rehabilitate the Basic Infrastructure Facilities into forestry land within a limited time, which could have a material adverse effect on TWEL.

***Failure to comply with requisite planning schemes for Swallows’ Gully filed by competent governmental authorities will have a material adverse effect on TWEL’s operations.***

The development plan for Swallows’ Gully, entitled “Planning for Swallows’ Gully Scenic Area of Gongga National Scenic Area for the period starting from 2006 to 2020 (as revised)” was approved by the Sichuan Provincial Bureau of Construction in an approval letter dated July 28, 2006. The approval letter stated that no facility damaging the environment and natural scenery should be constructed within Swallows’ Gully, and any important construction project should be subject to a careful feasibility study and approvals in accordance with the relevant regulations. Such planning is still subject to final approval from the State Council and after that such approval may be reviewed and revised if deemed as necessary by the original approval authority prior to expiration. GTL has obtained a feasibility study and believes it is operating in compliance with the approval letter. However, if in the future, TWEL’s completed facilities within Swallows’ Gully are inconsistent with the then approved planning, GTL might be ordered by governmental authorities to, among other things, relocate or demolish such facilities, which may have a material adverse effect on the operations of Swallows’ Gully and TWEL.

A similar but different planning scheme, the Ecotourism Overall Planning of Swallows’ Gully Scenic Area of Gongga National Nature Reserve, was approved by the SFA, in an approval letter to the Sichuan Provincial Bureau of Forestry on September 10, 2010. The approval letter requires the number of tourists, the forms of tourism activities and the scale and number of construction projects to be strictly controlled within the area, and does not allow the operation and management of tourism activities to be granted to third parties such as GTL. The SFA also does not specifically allow the construction of hotel or cable car facilities on Swallows’ Gully. GTL is planning to build a hotel within Swallows’ Gully under the heading of “visitor hospitality center” as provided in this overall planning. However, it is unclear whether the SFA or other competent forestry authorities would (i) allow for the construction or operation of such facilities by a third party on the relevant portions of Swallows’ Gully or (ii) interpret the term “visitor hospitality center” broadly enough to include a hotel, especially a hotel of the proposed scale of GTL’s planned facility. Any understanding or interpretation of this concept by the forestry authorities different from that which GTL intended may cause a material adverse effect to the construction and/or operation of the cable car and hotel, which would have a material adverse effect on TWEL.

***TWEL’s business is in an early stage of development, and is subject to significant uncertainties.***

TWEL remains in a developmental phase of its business and therefore there is limited historical information available about TWEL upon which to evaluate its business and future operating results. As a result, TWEL’s business and prospects should be considered in light of the risks, expenses and challenges that TWEL will face as an early stage company seeking to develop and operate a major new development with significant ongoing capital requirements.

TWEL has encountered, and will continue to encounter, risks and difficulties frequently experienced by early-stage companies, and those risks and difficulties may be heightened in a rapidly developing market such as the scenic tourism industry. Some of the risks relate to the ability to:

- complete the development projects within their anticipated time schedules and budgets;
- obtain and maintain required governmental permits and authorizations for existing facilities;
- further develop Swallows' Gully;
- attract and retain customers and qualified employees;
- operate, support, expand and develop the operations and the facilities; and
- maintain effective control of operating costs and expenses.

Among other things, TWEL is in the process of obtaining all necessary zoning, land use, building, occupancy, environmental and other required governmental permits and authorizations for certain of the existing facilities as well as for the development of new facilities on Swallows' Gully. TWEL will be engaged in and has plans for a variety of development projects relating to its operations. Although TWEL expects that these initiatives will be completed on schedule and at their respective estimated costs, there can be no assurance (i) that TWEL will receive the necessary regulatory approvals for such projects, (ii) as to when such projects will be completed, (iii) that TWEL's estimated costs associated with such projects will prove to be accurate or (iv) that TWEL will receive the expected benefits from such projects.

***TWEL will be entirely dependent on Swallows' Gully for all of its operating cash flow, which subjects TWEL to greater risks than a tourism company operating more scenic tourism areas.***

TWEL will be entirely dependent upon Swallows' Gully for all of its operating cash flow. As a result, TWEL is subject to a greater degree of risk than a tourism company with more operating scenic tourism areas. The risks to which TWEL will have a greater degree of exposure include the following:

- local economic and competitive conditions;
- changes in local, provincial and national governmental laws and regulations and the implementations thereof, including tourism laws and regulations;
- shortages of skilled and unskilled labor affecting construction, development and/or operations;
- a decline in the number of visitors to Swallows' Gully; and
- natural and other disasters including the global pandemics that result in decreased tourism activity.

Any of the factors outlined above could negatively impact TWEL's operating results.

***Government control or limitation on future increases to ticket prices to scenic tourism areas may adversely affect TWEL's profitability.***

The admission ticket prices to scenic tourism areas in the PRC are closely regulated by the government. The setting of ticket prices and any adjustments need to be filed and reported to the relevant competent authorities for their final determination. While TWEL may experience higher levels of domestic inflation, labor and other costs in the PRC, the limitation on increases to ticket prices imposed by the government may adversely impact the profitability of TWEL. It may be difficult for TWEL to adjust ticket prices in a timely manner to reflect market conditions. If Ganzi DRC does not agree with the ticket price adjustment to reflect changes in costs, TWEL's profitability would be

adversely affected.

***Swallows' Gully faces competition from nearby scenic tourism areas.***

There are a number of AAAAA and AAAA scenic tourism areas in western and northern Sichuan, including the Hailuo Valley scenic area. Located approximately 30 minutes away from Swallows' Gully, Hailuo Valley is the oldest commercial scenic park near Gongga Mountain and operates a 3.5 km cable car facility. Hailuo Valley Administration is the governmental agency that has jurisdiction over both the Hailuo Valley scenic area and Swallows' Gully.

Management of TWEL believes that the success of Hailuo Valley's operation may be beneficial to Swallows' Gully and that it may benefit from Hailuo Valley's experience in administering Hailuo Valley and the potential for sharing certain infrastructure owned or operated by Hailuo Valley Administration. However, due to proximity and relative similarity, there will be competition between Hailuo Valley and Swallows' Gully for tourists and the resources of Hailuo Valley Administration, and Swallows' Gully may be disadvantaged in such competition as a new and less developed entrant into the market.

***The scenic tourism sector in which TWEL operates is subject to extensive regulations and affected by government policies in the PRC.***

To date, GTL has had a good relationship with, and has not encountered any obstacles in obtaining necessary approvals from, the Sichuan Provincial Department of Commerce and Ganzi Prefecture Bureau of Commerce, being the government authorities at different levels responsible for approval of foreign investment in accordance with the Catalogue of Industries for Guiding Foreign Investment. However, there cannot be any assurance that there will not be any change in application of laws and regulations or the interpretation or enforcement thereof by the applicable PRC government authorities, which may prevent GTL from further developing its operations or extending its term of operations.

***TWEL's business is subject to risks associated with seasonality of operations and unfavorable weather conditions.***

TWEL's ability to attract visitors to Swallows' Gully during its peak season is influenced by weather conditions. Adverse weather conditions may discourage visitors from participating in outdoor activities at Swallows' Gully. Prolonged periods of adverse weather conditions (including, severe winters, conditions such as prolonged rain, fog and snow, sandstorms or other conditions resulting from changes in climate attributable to greenhouse gases or otherwise) could have a material adverse effect on TWEL's financial condition and results of operations.

***TWEL has been a loss-making entity since its inception and TWEL may not fully realize anticipated benefits from redevelopment and expansion.***

TWEL operated at a loss in each of the years ended December 31, 2012 to December 31, 2017 and the growth potential of Swallows' Gully, even after development and expansion, may not materialize. TWEL cannot assure that it will be able to expand its operations or that, if further developed, Swallows' Gully will generate any profits from such developments as it may not be able to attract a sufficient number of tourists to Swallows' Gully in order to achieve performance goals.

***TWEL may be exposed to third party credit risk.***

TWEL may be exposed to third party credit risk through its contractual arrangements with third parties. Failure of third parties to meet their contractual obligations to TWEL, including the collection of fees payable to GTL if Hailuo Valley Administration assumes collection of admission ticket fees to Swallows' Gully, may have a material adverse effect on the business, financial condition and results of the operations of TWEL.

***TWEL's business depends substantially on the continuing efforts of its senior management, and TWEL's business may be severely disrupted if it loses their services or their other responsibilities cause them to be unable to devote sufficient time and attention to TWEL.***

TWEL will place substantial reliance on the scenic tourism, project development and hospitality industry experience and knowledge of the PRC market possessed by members of TWEL's senior management team. The loss of the services of one or more of the members of the senior management team could hinder TWEL's ability to effectively manage its business and implement its growth and development strategies. Finding suitable replacements for such individuals or other members of the senior management could be difficult, and competition for personnel of similar experience could be intense in the PRC.

***TWEL will need to recruit a substantial number of new employees before each of its projects can open and competition may limit TWEL's ability to attract qualified management and personnel.***

TWEL requires both qualified construction staff and extensive operational management in order to build and operate each proposed project on Swallows' Gully successfully. Accordingly, TWEL plans to undertake a major recruiting program. The pool of experienced personnel in the PRC is limited. Many of TWEL's new management personnel will occupy sensitive positions requiring qualifications sufficient to meet applicable regulatory and other requirements or will be required to possess other skills for which substantial training and experience may be needed. Further, the contractors retained to construct TWEL's projects may also face difficulties and competition in finding qualified construction workers and managers as substantial construction activity continues in China. This may become further complicated by TWEL's ability to attract and identify construction managers experienced in construction in cold climate locations.

TWEL cannot provide any assurance that it will be able to attract and retain a sufficient number of qualified individuals to build and operate its projects or that costs to recruit and retain such personnel will not increase. The inability to obtain sufficient labourers or to retain qualified employees and senior management personnel could have a material adverse effect on TWEL's business.

***Cost of material and labour in China may increase significantly in the near future.***

Labour costs in PRC have traditionally been significantly less than those in other more developed countries. However, such costs have begun to rise and there is no guarantee that they will not continue to rise. The cost of building materials in China is also increasing, due in part to greater demand as a result of the high level of building activity in China. Any such increased cost could have an adverse effect on TWEL.

***Possible inadequacy of insurance coverage could adversely affect TWEL's business, results of operations and financial condition.***

Swallows' Gully is insured against general liability, damage to operation vehicles and work related accidents to employees. There is no assurance that such insurance will remain available to TWEL at commercially reasonable rates or that the amount of such coverage will be adequate to cover any liability incurred by TWEL. If TWEL is held liable for amounts exceeding the limits of its insurance coverage or for claims outside the scope of that coverage, its business, results of operations and financial condition could be materially adversely affected.

The construction, development and operation of Swallows' Gully can also be dangerous. Construction workers at the projects and tourists visiting Swallows' Gully may be subject to hazards that may cause personal injury or loss of life, thereby subjecting the contractors and TWEL to potential liabilities, possible losses and delays in completion of the projects. TWEL and its contractors intend to take safety precautions that are consistent with industry practice, but given the extent of the planned development these safety precautions may not be adequate to prevent serious personal injuries or loss of life, damage to property or delays. If accidents occur during the development of its projects or the operation of Swallows' Gully, TWEL may be subject to delays or suspension of operation (including delays or suspensions imposed by regulators), liabilities and possible losses, which may not be covered by insurance, and its business, prospects and reputation may be materially adversely affected.

***TWEL's operation of Swallows' Gully will be adversely affected by natural disasters such as earthquakes or landslides.***

TWEL's operation of Swallows' Gully will be adversely affected by natural disasters such as earthquakes or landslides. Swallows' Gully is located in Sichuan Province of the PRC, which is an area prone to earthquakes, landslides and other natural disasters. If any of these natural disasters takes place in or near Swallows' Gully, it may damage infrastructure or improvements existing or to be developed on or near Swallows' Gully, directly impacting the operations of TWEL by restricting visitors from coming to Swallows' Gully, delay or postpone planned development or construction of certain projects, and discourage visitors from traveling to the area in general and thus reducing the number of visitors to Swallows' Gully. In 2009, there was a land slide that occurred in Swallows' Gully and GTL was required to remedy the effects caused by the landslide. Therefore, a natural disaster taking place in or near Swallows' Gully may force TWEL to suspend its operations for an indefinite period and cause TWEL to incur additional expenditures, for which TWEL is currently unable to obtain adequate insurance, and give rise to a material adverse effect on its financial condition and results of operations.

### **Risk Factors Related to China**

***Stricter environmental protection requirements in the PRC in the future may lead to an increase of GTL's operating costs.***

The environmental protection requirements for national landscape conservation of natural resources, especially the national tourism resources (including national scenic area) and natural reserve areas are becoming increasingly strict in the PRC. If in the future the PRC governmental authorities impose stricter environmental requirements on the activities in Swallows' Gully, it will lead to an increase of GTL's operating costs, which may adversely affect GTL's business.

***Restrictions on foreign currency exchange may limit TWEL's ability to obtain foreign currency or to utilize its revenue effectively.***

TWEL receives most of its revenues in RMB. As a result, any restrictions on currency exchange may limit its ability to use revenue generated in RMB to fund business activities outside the PRC and pay out dividends to its shareholders.

TWEL cannot assure that sufficient amounts of foreign currency will always be available to enable TWEL to meet its foreign currency obligations, whether to service or repay indebtedness not denominated in RMB or to remit profits out of the PRC. In addition, TWEL's subsidiaries incorporated in the PRC may not be able to obtain sufficient foreign currency to pay dividends to TWEL or to satisfy their other foreign currency requirements.

***TWEL will potentially be adversely affected if there is a significant economic slowdown in the PRC.***

All of TWEL's revenues will be derived from operations in China. TWEL anticipates that China will remain its primary market for the foreseeable future. One of TWEL's strategies is to expand its operations in China. Accordingly, TWEL's business, financial condition, results of operations, and prospects are, to a significant degree, subject to economic development in China. Should there be any adverse change in the GDP and/or consumer spending growth in China, the results of operations, financial condition, and growth prospects of TWEL may be materially and adversely affected.

***TWEL's operations are subject to the uncertainty of the PRC legal system.***

Since 1979, the PRC government has been developing a comprehensive system of commercial laws and regulations dealing with economic matters, such as foreign investment, corporate organization and governance, commerce, taxation and trade. In addition, PRC government policies and internal rules (some of which are not published on a timely basis or at all) may have retroactive effect. At present, the legal framework for the scenic tourism industry in the PRC is at an early stage of development. Because these laws and regulations may not be comprehensive or consistent, and because of the limited volume of published cases and judicial interpretations and the nonbinding nature of prior court decisions, the interpretation and enforcement of these laws, regulations and legal requirements

involve some uncertainty. Such uncertainty may make it difficult for TWEL to enforce its Concession Rights and other rights. As the PRC legal system develops together with the PRC scenic tourism industry, TWEL cannot provide any assurance that changes in such laws and regulations, or in their interpretation or enforcement, will not have a material adverse effect on its business, financial condition and results of operations.

***TWEL's net profitability is subject to changes in PRC tax treatment.***

The PRC currently has a number of tax laws imposed by both national and regional government authorities. Applicable PRC taxes include, among others, enterprise income tax, withholding tax for dividends, and land use tax. Changes in PRC tax treatment could have a negative impact on TWEL.

***PRC economic, political and social conditions as well as government policies, laws and regulations could adversely affect the TWEL's business.***

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy. Some of these measures will benefit the overall PRC economy, but may have a negative effect on TWEL.

TWEL's business, financial condition and results of operations may be materially and adversely affected by:

- changes in PRC political, economic and social conditions;
- changes in policies of the PRC government, including without limitation, changes in policies affecting private business, lease of state-owned properties, and the scenic tourism industry generally;
- changes in laws and regulations or the interpretation of laws and regulations, including relating to scenic area administration, natural reserve area protection, land use and development and environmental compliance and compliance obligations;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation; and
- imposition of additional restrictions on currency conversion and remittances abroad.

***Political or economic instability in nearby regions could adversely affect the business of TWEL.***

The PRC government has previously taken actions to stabilize the country's economy and any possible social unrest. It has implemented various measures intended to strengthen and improve macroeconomic regulation and is slowly pushing forward reform programs to create stable momentum and growth. Swallows' Gully is located near jurisdictions of China that are more likely to be subject to political and economic instability than is usually the case in other jurisdictions. TWEL's proposed activities could be adversely affected by: political instability and violence; war and civil disturbance; expropriation or nationalization; and unenforceability of contractual rights, any of which may adversely affect TWEL's business.

***Intellectual property rights are not generally well protected in China.***

Intellectual property rights are not generally well protected in China. To the extent TWEL intends to build brand recognition in China it will need to spend significant resources on protecting and enforcing its intellectual property including, without limitation, any trademarks, or run the risk of having such intellectual property used by competitors or others.

**SCHEDULE C**

**VALUATION REPORT AND FAIRNESS OPINION**

**INDEPENDENT VALUATION REPORT**

**&**

**RELATED FAIRNESS OPINION**

**REF.: B03618**

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**TOTAL WONDER ENTERPRISES LIMITED**

**Report Date**

**19 December 2018**

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19 December 2018

Our Ref.: B03618

**The Board of Directors**

Alpha Peak Leisure Inc.  
Flat C, 13/F  
Lippo Leighton Tower  
No 103 Leighton Road  
Hong Kong

**RE: INDEPENDENT VALUATION REPORT AND RELATED FAIRNESS OPINION**

Dear Sirs/Madams,

We refer to the letter dated 5 September 2018, wherein the management (the “Management”) of Alpha Peak Leisure Inc. (“Alpha Peak” or the “Company”), for and on behalf of the special committee (the “Special Committee”) of the board of directors of Alpha Peak (the “Board”), has requested Hong Kong Appraisal Advisory Limited (“HKAPPRAISAL” or “we”) to complete an Independent Valuation Report and Related Fairness Opinion (the “Report”). Alpha Peak’s shares are listed for trading on the TSX Venture Exchange (the “Exchange”) under the symbol “AAP”. We understand that on, it is currently proposed by the Board that:

1. Alpha Peak will sell its 100% interest in the shares (the “TWEL Shares”) of its wholly-owned subsidiary Total Wonder Enterprises Limited (hereinafter referred to as the “Target Company” and together with its subsidiaries, the “Target Group”) to certain shareholders (collectively, the “Purchasers”) of Alpha Peak (the “Transaction”) for aggregate consideration of C\$3,931,997 (the “Purchase Consideration”).
2. In connection with the Transaction, Alpha Peak will effect a cash distribution of C\$0.075 per Alpha Peak common share (each an “Alpha Peak Share”) by means of a return of capital (the “Distribution”).

3. All shareholders (the “Disinterested Shareholders”) of Alpha Peak, other than the Purchasers, will receive an aggregate cash payment of C\$1,473,783 on account of the Distribution (the “Disinterested Shareholder Distribution Amount”). Before the Distribution, the Disinterested shareholders have 19,650,449 Alpha Peak Share, representing its 27.26% equity interest in Alpha Peak.
4. Before the Distribution, the Purchasers have 52,426,624 Alpha Peak Share, representing 72.74% equity interest in Alpha Peak. The Purchasers will apply their Distribution proceeds towards the purchase of the TWEL Shares by means of a set-off against the purchase price payable for the Target Company. No cash payment will be made to the Purchasers on account of the Distribution.
5. To fund the Disinterested Shareholder Distribution Amount, the Target Company will first redeem a number of TWEL Shares for an amount equal to the Disinterested Shareholder Distribution Amount (the “Redemption Consideration” and together with the Purchase Consideration collectively, the “Transaction Consideration”).
6. The Transaction Consideration (being C\$5,405,780, or C\$0.075 per Alpha Peak Share) represents the aggregate consideration that will be received by Alpha Peak in connection with the disposition of its interests in the Target Company.

As a result, it is anticipated that:

- a. Each shareholder of Alpha Peak (including, for the avoidance of doubt, the Purchasers and the Disinterested Shareholders) will retain their Alpha Peak shares. Alpha Peak will remain a public company, listed on the NEX.
- b. The Purchasers will own all of the outstanding TWEL shares. TWEL would remain a private company under the laws of the British Virgin Islands.

The Management, for and on behalf of the Special Committee, has requested the Report in order to have an independent opinion as to the fair market value of 100% equity interest in the business enterprise of the Target Group as at 30 September 2018 (the “Valuation Date”). We have also been requested by the Management to undertake the completion of the Report in order to provide an independent opinion as to whether the Disinterested Shareholder Distribution Amount is fair, from a financial point of view, to the Disinterested Shareholders of the Company. We have no responsibility to provide an independent opinion as to whether the Transaction itself, or the Transaction process from other points of view rather than financial, is fair or not.

The Report is prepared for the Special Committee and the Board, and may be included in public disclosure documents regarding the Transaction and related Distribution and may also be submitted to the Exchange.

In connection with the Transaction, the Special Committee and the Board have conducted their own review of the Transaction. The Special Committee has requested HKAPPRAISAL’s opinion to provide an independent verification of the fairness of the Disinterested Shareholder Distribution Amount.

In formulating our opinion on the *fair market value* of 100% equity interest in the business enterprise of the Target Group, we have gathered consolidated statements of profit or loss and other comprehensive, consolidated statements of financial position, financial statistics, financial projections and operating results furnished by the Management and the representatives of the Target Group as properly representing the Target Group’s business operation and condition surrounding the business enterprise being appraised. Since we rely extensively on the information, materials and representations provided by the Management and associated representatives of the Target Group, we have required the Management to confirm that the details in the Report are being reviewed and that the information and Management’s representation contained in the Report are accurate, correct and complete, and that there are no material omissions of information that would affect the conclusion contained in the Report.

HKAPPRAISAL and its staff do not assume any responsibility or liability for losses incurred by Alpha Peak, their managements and shareholders or any other parties as a result of the circulation, publication, reproduction, or use of the Report, or any excerpts thereto contrary to the provision of the Report.

## **INTRODUCTION**

### **Alpha Peak Leisure Inc.**

Alpha Peak Leisure Inc. completed its initial public offering on 31 January 2013. The Alpha Peak Shares are listed on the Exchange (Stock Code: AAP.V). Alpha Peak is principally engaged in investment holding. The outstanding common shares of Alpha Peak as at the Valuation Date are 72,077,073 shares.

### **Total Wonder Enterprises Limited**

Total Wonder Enterprises Limited, a wholly-owned subsidiary of Alpha Peak, is a BVI company. It acts as an investment holding company which indirectly owns the entire equity interest of Gongga Terraferma Limited (“Gongga”) through its wholly-owned subsidiary, namely Merit Sign Investments Limited.

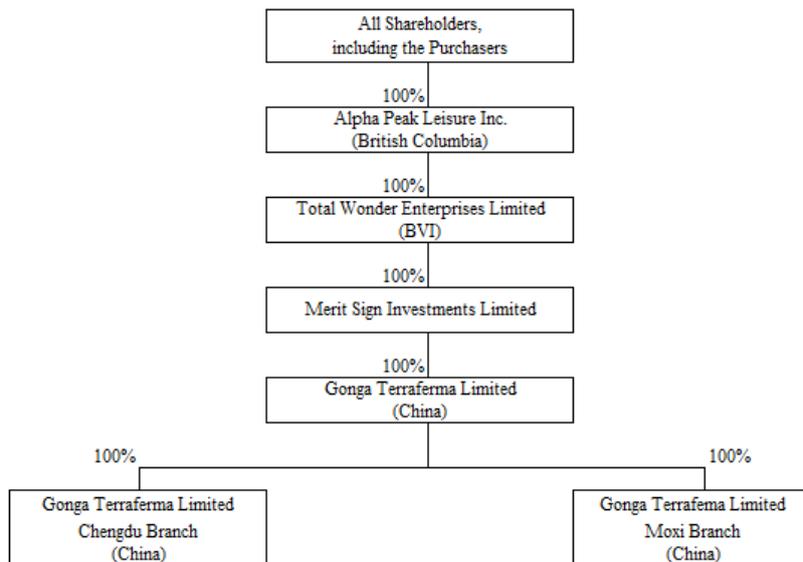
Gongga is principally engaged in the development and operation of Swallow Gully Scenic Area (the “Swallows’ Gully Project”). Gongga has a 40-year exclusive operation and development right of Swallows’ Gully, a national scenic spot in China encompassing an area of 593km<sup>2</sup>.

### **The Transaction**

A summary of the relevant Transaction Steps is included in the cover letter to this independent valuation report and related fairness opinion.

The following chart illustrates the current corporate structure of the Company and each of its subsidiaries prior to the Transaction:

*Exhibit 1: Corporate Structure of Alpha Peak prior to the Transaction*

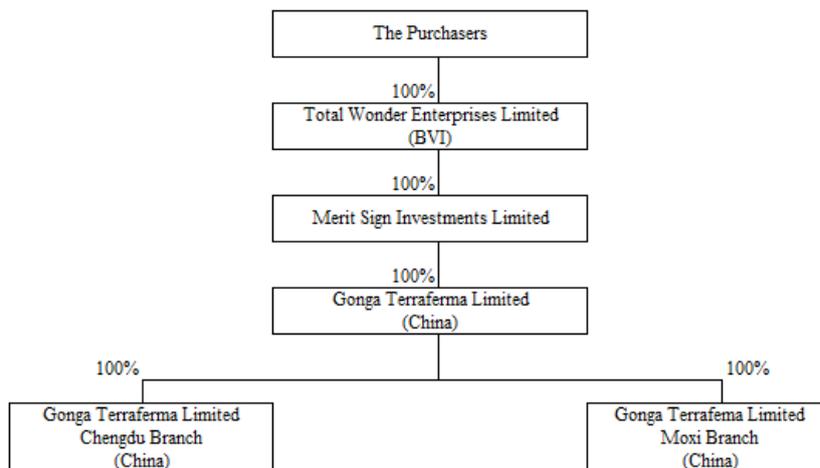


Source:

*The Management*

The following chart illustrates the corporate structure of the Target Group as a result of the Distribution and the Transaction:

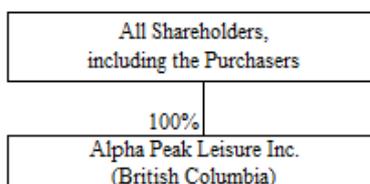
*Exhibit 2: Corporate Structure of the Target Group after the Distribution and the Transaction*



Source: The Management

The following chart illustrates the corporate structure of the Company after the Distribution and the Transaction:

*Exhibit 3: Corporate Structure of the Company after the Distribution and the Transaction*



*Source: The Management*

### **Swallows' Gully Project**

In October 2007, Gongga has entered into a cooperation agreement (the "Cooperation Agreement") with 甘孜州海螺溝景區管理局 ("Hailuo Valley Administration"), pursuant to which Gongga has a 40-year exclusive operation and development right of Swallows' Gully until 8 December 2046 (the "Expiry Date") and the exclusive operation right is subject to renew. An initial investment of RMB80 million, excluding further investment which will be subject to market demand, is budgeted for the Swallows' Gully Project. Hailuo Valley Administration is responsible for the land supply associated with the Swallows' Gully Project and Gongga is responsible for the capital injection and Swallows' Gully Project's operation and management. At the end of the Expiry Date, the Swallows' Gully Project will be transferred to Hailuo Valley Administration.

According to the Cooperation Agreement, Hailuo Valley Administration agrees to compensate Gongga for the initial investment of infrastructure under the terms that Gongga will be subject to 80.0% of the after-tax revenue from ticket sales, settled quarterly, for the period from the second year of operation to the end of the Expiry Date.

### **Swallow Gully Scenic Area**

Swallow Gully Scenic Area is a national scenic spot. It is located in Garze Tibetan Autonomous Prefecture in Sichuan, covering an area of approximately 593km<sup>2</sup>.

Swallows' Gully, resides on the eastern slope of Gongga Mountain. Gongga Mountain, known locally as "King of Shu Mountains" and "Minya Konka", is the highest mountain in Sichuan and the third highest peak outside of the Himalayas. It spans 200 kilometers from north to south and extends from east to west for 100 kilometers.

Swallows' Gully boasts many unique geographic attractions, including low-elevation glaciers, virgin forests, rare flora and fauna, natural hot springs and unique rock structures formed over millions of years. There are over 400 wild species of plants and animals, including 30 animals under first or second degree national protection, and 40 species of plants classified as rare and precious. Due to its pristine natural environment and varying elevation, Swallows' Gully hosts a range of rare, unique vegetation and soil belts, grasslands, aromatic and colorful flowers of various breeds, and dense forestry that include Chinese larch, yew and dragon spruce.

## **SCOPE OF THE REPORT**

In arriving at opinion as to the fair market value of 100% equity interest in the Target Group as at the Valuation Date, we have relied on the following major documents and information provided by the Management and the representatives of Gongga:

- Interviewed the representatives of Gongga during the on-site visit to Swallow Gully Scenic Area and through conference call by phone;
- Conducted a site visit of Swallow Gully Scenic Area and Gongga in September of 2018;
- Reviewed the website <http://www.hailuogou.com>;
- Reviewed the draft management information and circular information of Alpha Peak prepared in connection with the approval of the Transaction and the Distribution;
- Reviewed the Cooperation Agreement signed by Gongga and Hailuo Valley Administration in October 2007;
- Reviewed the loan agreement regarding the outstanding loan of the Target Group as at the Valuation Date;
- Reviewed Gongga's bank statements of the structured deposits as at the Valuation Date for investment purpose by the management of Gongga;
- Reviewed the resolution of the Board of Directors of Alpha Peak regarding the formation of the Special Committee;

- Reviewed the Property Valuation Report regarding the valuation of management centre in Yanzi Gou situated at Yanzi Gou Cun, Xinxing Xiang, Lu Ding Xian Sichuan Province in the PRC as at 31 December 2017, which was prepared by an independent valuer Asset Appraisal Limited in accordance with the HKIS Valuation Standards (2017 Edition) published by the Hong Kong Institutes of Surveyors;
  - As outlined in the Property Valuation Report, the market value of the appraised property was determined to be RMB7,840,000 as at 31 December 2017.
  
- Reviewed the following financial statements:
  - Gongga's audited consolidated statement of profit or loss and other comprehensive for the years ended 31 December 2015, 2016 and 2017 and unaudited consolidated statement of profit or loss and other comprehensive for the 9-month ended 30 September 2018 provided by the management of Gongga representatively;
  - Gongga's audited consolidated statement of financial position as at 31 December 2015, 2016 and 2017 and unaudited consolidated statement of financial position as at 30 September 2018 provided by the management of Gongga representatively;
  - Unaudited consolidated statement of profit or loss and other comprehensive of the Target Group for the 9-month ended 30 September 2018 provided by the Management;
  - Unaudited consolidated statement of financial position of the Target Group as at 30 September 2018 provided by the Management;
  
- Reviewed the fixed assets listed of Gongga as at 30 September 2018 and recalculated their depreciation for each financial year during the remaining useful life;
  
- Reviewed capital expenditure plan provided by the management of Gongga and recalculated its depreciation for each financial year during the remaining useful life;
  
- Reviewed the net working capital of Gongga as at 30 September 2018 and discussion with the management of Gongga to understand the required net working capital throughout the Projections periods;

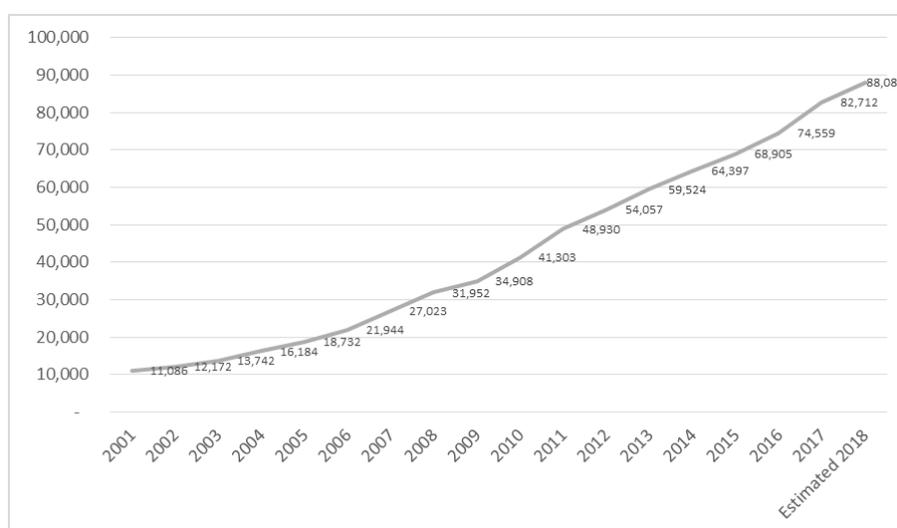
- Analyzed the Projections prepare by the management of Gonga and reviewed the Management and Gonga’s representative’s responses to our queries on the Projections;
- Reviewed the business plan prepared by the management of Gonga;
- Reviewed the financial information of the comparable public trade companies as at the Valuation Date;
- Reviewed the trading price and trading volume of the Alpha Peak Shares on the Exchange for the period from 1 January 2017 to 18 December 2018.

## INDUSTRY OVERVIEW

### China Economic Condition

The national economy of China maintained stable growth in first half of 2018. China’s first half of 2018 gross domestic product (“GDP”) was around RMB41,896 billion,<sup>1</sup> which was calculated at comparable prices and increased by 6.8% year-on-year. The value added of the primary industry was around RMB2,209 billion, increased by 3.2%, that of the secondary industry was RMB16,930 billion, increased by 6.1% and the tertiary industry was RMB22,758 billion, increased by 7.6%.

*Exhibit 4: Annual GDP of China (in RMB billions)*



Source: National Bureau of Statistics

<sup>1</sup> National Bureau of Statistics, [www.stats.gov.cn](http://www.stats.gov.cn)

The consumer prices increased slightly in the first half of 2018 by 2.0% year-on-year, 0.1% lower than the first quarter. According to National Bureau of Statistics of China, in the first half of 2018 , the prices for food, tobacco and alcohol was increased by 1.4%. The articles and services for daily use up by 1.6%. The price for housing was increased by 2.3% and the price of health care was increased by 5.5%.

By the end of the first half of 2018, the national fixed asset investment (excluding rural households) was RMB29,731 billion, a year-on-year increase of 6.0%, and the growth rate dropped by 1.5% from the first quarter. Specifically, the private investment reached RMB18,454 billion, up by 8.4% year-on-year, 1.2% higher than the same period of last year.

In the first half of 2018, the per capita disposable income of the national residents was around RMB14,063, a nominal increase of 8.7% year-on-year, and a real increase of 6.6% after deducting the price factor. In terms of permanent household, the per capita disposable income of urban household was RMB19,770, a nominal increase of 7.9% year-on-year, and the actual increase of 5.8% after deducting the price factor; the per capita disposable income of rural household was RMB7,142, a nominal increase of 8.8% year-on-year, and a real increase of 6.8% after deducting the price factor. .

The total value of imports and exports of goods in the first half of 2018 reached around RMB14,123 billion, up by 7.9% year on year. The value of goods exported was RMB7,512 billion, increased by 4.9%, and the value of goods imported was around RMB6,611 billion, with an increment of 11.5%. The balance of imports and exports (exports minus imports) was around RMB901 billion in surplus, 26.7% less than the same period of last year.

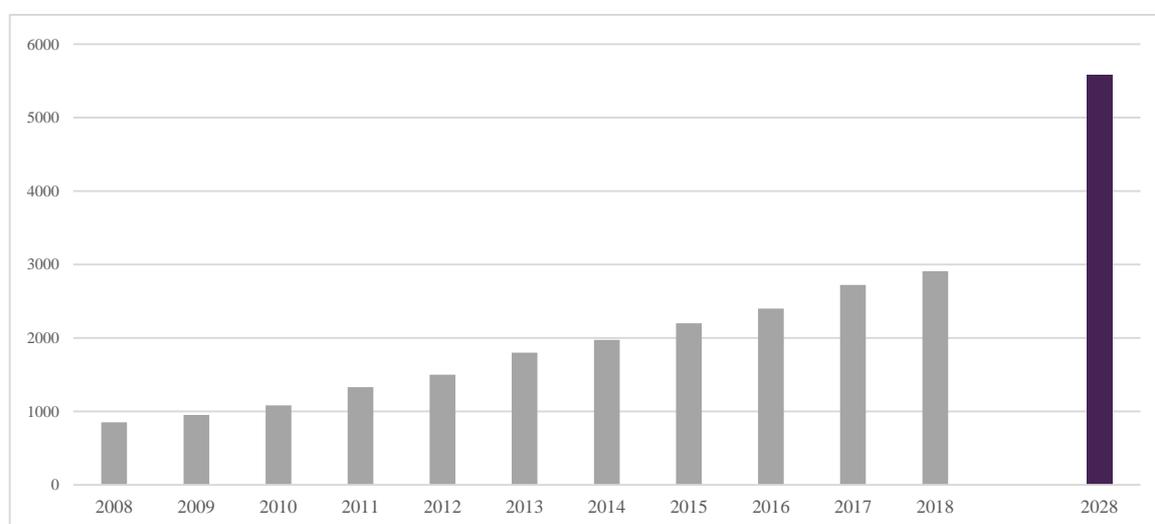
### **Tourism Industry in China**

China is a country that has a vast territory and a long history, with rich cultural landscape, well-preserved monuments and stunning natural attractions. Due to the implementation of reforms and the openings of borders, in recent years,the rate of tourism in China has expanded over the last few decade. There is no doubt that tourism is becoming a significant industry in China these years.

China State Council has announced the implementation of the five-year tourism plan which covers the period from 2016 to 2020. The plan reveals that by 2020, the government plans to raise the total revenue from tourism industry to RMB7 trillion, and expects an increase of the direct investment in tourism to RMB2 trillion with a target of making the tourism sector contributes more than 12.0% of the GDP.<sup>2</sup>

Since tourism is an interdependent industry, it places impact on several other industries such as retail, hotel and transportation. Starting from 2012, the direct contribution of China's tourism industry to GDP is growing at a steady rate. It indicates that China's tourism industry is getting more and more prosperous, it's also believed that the tourism industry will make greater contributions in the future. According to *Travel & Tourism Economic Impact 2018 China*, the direct contribution of tourism industry is expected to grow to RMB5,579 billion by 2028, with a CAGR of 6.7%.

*Exhibit 5: Direct Contribution of China's Tourism Industry from 2008 to 2028 (in RMB billions)*



Source: *Travel & Tourism Economic Impact 2018 China*

## **Tourism Industry in Sichuan**

Sichuan is rich in natural resources and has the most well developed industrial sector in the region. It is also one of the major agricultural production bases in China, its output of rice, wheat, rapeseed and etc. are all account for a significant share of China's total GDP, but it is not merely a base of agricultural and industrial, its tourism industry also contributes a significant amount to the national's GDP.

<sup>2</sup> [www.chinadaily.com.cn/business/2017-01/10/content\\_27909463.htm](http://www.chinadaily.com.cn/business/2017-01/10/content_27909463.htm)

Sichuan has 5 world-known world heritages (including Mount Qingcheng, Jiuzhaigou valley, Mount Emei, Giant Panda Breeding Research Base and Huanglong scenic area) and a total of 15 national 4A scenic sites.<sup>3</sup>

Since 2013, China has conducted the strategic concepts as the “Silk Road Economic Belt”, which brings benefits to the tourism industry in Sichuan, since Sichuan is located at the superior geographical position in the southern part of Silk Road. Although an earthquake in 2017 damaged some tourist attractions and affected the tourism industry in Sichuan, it still can rebound depend on its advantages of the natural environment and the cooperation of the between government and resident. According to “Sichuan Economy and Trade Trends Monthly Report”, the total revenue of tourism revenue was RMB40 billion during 2018 Chinese New Year holiday with an annual growth of 25.6%.<sup>4</sup> This boost is credited to the developed trains’ networks and the adoption of successful marketing policies from Sichuan Provincial Bureau of Tourism.

Furthermore, Sichuan Province just approved the “Sichuan Red Tourism Three-Year Action Plan” (四川省紅色旅遊三年行動計劃) in September 2018 to develop appropriate tourism supporting rules and services in line with Sichuan's actual conditions and pursue innovative breakthroughs to make Sichuan tourism more prosperous.

### **Tourism Industry in Garze Tibetan Autonomous Prefecture**

Garze Tibetan Autonomous Prefecture (“Garze”) (甘孜藏族自治州) is one of the three ethnic autonomous prefectures and the largest Tibetan area in Sichuan Province, located along the Yalong River at the western part of Sichuan. Not only is the transition area from Yunnan-Guizhou Plateau to Sichuan Basin, Garze is also situated at the place where important arteries met, such as National Highway 318 and 317.<sup>5</sup> It has abundant natural resources, such as snow mountains, plateaus, canyons, grasslands, forests and minerals.

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<sup>3</sup> [www.china.org.cn/travel/Wild\\_Sichuan/2018-03/17/content\\_50711252.htm](http://www.china.org.cn/travel/Wild_Sichuan/2018-03/17/content_50711252.htm)

<sup>4</sup> [ccpit-sichuan.org/newshow.aspx?mid=112&id=4997](http://ccpit-sichuan.org/newshow.aspx?mid=112&id=4997)

<sup>5</sup> [www.chinahighlights.com/ganzi/](http://www.chinahighlights.com/ganzi/)

Surrounded by snow-covered mountains, forests and running rivers, Garze boasts lots of famous scenic attractions, such as Hailuoguo Glacier Park, Mugecuo Scenic Area, Daocheng Yading Natural Reserve, Kangding, and Danba Village. With the supportive scenic attractions, the total amount of visitors were 16.7 million and the revenue generated from tourism was RMB16.6 billion in 2017. Recent years, the government of Garze signed a memorandum, which is developing sustainable tourism policies and improving all industries (including transport, dining and hotel) to achieve sustainable tourism in Garze.<sup>6</sup>

## **BASIS OF VALUATION AND ASSUMPTIONS**

### **Business Enterprise**

*Business enterprise* is defined as the combination of all tangible assets, long term investment, net working capital and intangible assets of a continuing business. Alternatively, the business enterprise is equivalent to the investment capital of the business, that is, the combination of the value of shareholder's equity and long-term debt.

### **Fair Market Value**

*Fair market value* is an opinion expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, as of a specific date.

For this valuation, *fair market value* is established on the premise of continued use. Under the continued use premise, it is assumed that the buyer and the seller would be contemplating retention of the assets as part of the current operations. An estimate of *fair market value* derived on the premise of continued use does not represent the amount that might be realized from piecemeal disposition of the assets in the marketplace or from an alternative use of the assets. The premise of continued use is generally appropriate when:

- The assets are fulfilling an economic demand for the service they provide or which they house;
- The assets have a significant remaining useful life expectancy;

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<sup>6</sup> [www.gstcouncil.org/gstc-garze-tibetan-autonomous-prefecture-sichuan-china/](http://www.gstcouncil.org/gstc-garze-tibetan-autonomous-prefecture-sichuan-china/)

- Responsible ownership and competent management may be expected;
- Diversions of the assets to an alternative use would not be economically feasible or legally permitted;
- Continuation of the existing use by present or similar users is practical;
- Due consideration is given to the assets' functional utility for their present use; and
- The assets' economic utility is duly considered.

We were furnished by the Management for the purpose of this valuation, with the financial projection (the "Projections"), audited and unaudited consolidated financial statements of the Target Group as well as other relevant records and documents. We have reviewed and examined the financial information and have no reason to doubt the truth and accuracy of the information contained therein. We do not provide assurance on the achievability of the results forecasted by the Target Group and/or Gongga because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of forecasted results is dependent on actions, business plans, and assumptions of the Target Group.

#### **General Assumptions on Valuation of Business Enterprise**

Our investigation included an on-site visit to Swallow Gully Scenic Area, discussions with the Management and the representatives of Gongga in relation to the nature of the business and future operation of the Target Group, a study of the Projections and the business plan, a review of the information provided by the Management. We have discussed with the Management and the representatives of Gongga the basis and assumptions upon which the Projections were made and other information related to the Target Group. We have assumed that such information and representation provided to us are true and accurate. Before arriving at our opinion of value, we have considered the following principal factors:

- The nature and prospect of the business operating by the Target Group;
- Past operating results of other similar businesses;

- The economic outlook in general and the specific economic and competitive elements affecting the Target Group's business, the industries and its markets;
- The market-derived investment returns of entities engaged in a similar line of business;
- The risks relating to the Target Group when implementing its business plan;
- The assets, liabilities, and equity and financial condition of the business;
- The ability to generate future economic benefits and the measurability of such future economic benefits;
- The consolidated financial statements and other information provided by the Management and the management of Gongga; and
- The Projections.

Due to the changing environment in which the Target Group is operating, a number of assumptions have to be established in order to sufficiently support our concluded value of the business enterprise. The major assumptions adopted in this appraisal are:

- There will be no major changes in the existing political, legal, and economic conditions in the countries in which the Target Group carries on its businesses;
- There will be no major changes in the current taxation law in China, that the rates of tax payable will remain unchanged and that all applicable laws and regulations will be complied with;
- There will be no material changes in the tourism industry in which the Target Group involved that would materially affect the revenues, profits, cash flows attributable to the business;
- Exchange rates and interest rates will not differ materially from those presently prevailing;
- The labor market conditions in China will not differ materially from those presently prevailing.

- The Target Group will retain and have competent management, key personnel, and technical staff to implement its business plan;
- Industry trends and market conditions as well as its related industries will not deviate significantly from Management's estimation and the Projections;
- The Projections and the business plan have been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration;
- The Target Group will maintain the validity of all necessary permits, license, certificates and approvals;
- The Target Group will utilize and maintain its current operational, administrative and technical facilities to expand and increase its revenue;
- The Target Group can keep abreast of the latest development of the industry such that its competitiveness and profitability can be sustained;
- The availability of finance will not be a constraint on the Target Group's operation in accordance to the Projections;
- As advised by the management of Gongga, the long-term revenue growth rate since 2024 and onwards will be 3%;
- As advised by the management of Gongga, the structured deposit of RMB9,000,000 as at the Valuation Date was held for investment purpose, thus it was treated as non-operating asset in the valuation.
- The Target Group will settle the net working capital as at 31 December 2046 when the Cooperation Agreement ends; and
- As advised by the management of Gongga, Gongga will acquire the land of existing car park in 2020 for future business development and it is not required to be transferred to Hailuo Valley Administration when the Cooperation Agreement ends. It is assumed that the Target Group will receive disposal proceed which equals to its initial purchase price as at 31 December 2046 when the Cooperation Agreement ends and the land of car park is disposed.

- The exchange rate for CAD/CNY as at the Valuation Date provided by the Bloomberg of 5.3142 was adopted.

## VALUATION METHODOLOGY

In arriving at our opinion of value of the Target Group, we have considered to use three generally accepted approaches, namely *Income Approach*, *Market Approach* and *Asset-based Approach*.

A. *Income Approach* is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the assets than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent assets with similar risk. Following is a list of the common methods under this approach:

- *Discount Cash Flow Method (a method within the income approach whereby the present value of future expected net cash flows is calculated using a discount rate.);*
- *Discounted Future Earnings Method (a method within the income approach whereby the present value of future expected economic benefits is calculated using a discount rate.); and*
- *Capitalization of Earnings Method (a method within the income approach whereby economic benefits for a representative single period are converted to value through division by a capitalization rate).*

B. *Market Approach* considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established used market may be appraised by this approach. Listed below are the common methods under this approach and their major parameters:

- *Guideline Public Company Method (a method within the market approach whereby market multiples are derived from market prices of stocks of companies that are engaged in the same or similar lines of business, and that are actively traded on a free and open market.) (the “GPCM”); and*

- *Merger and Acquisition Method (a method within the market approach whereby pricing multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business.) (the “M&A method”).*

C. *Asset-based Approach* considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. Actual costs incurred for upgrading of the assets to be appraised will also be considered in this approach.

### ***Selection of Valuation Approach***

Given the unique characteristics of the business nature of Target Group, we believe the most appropriate and reasonable methods to determine the *fair market value* of 100% equity interest in the Target Group as at the Valuation Date involve *Market Approach* and *Income Approach*.

On a going concern basis, *Asset-based Approach* is not suitable since the cost of replacing and reproducing the asset ignores the future economic benefits. In this case, the Target Group still has approximately 28 years exclusive operation and development right of Swallows’ Gully Project. Accordingly, *Asset-based Approach* is not appropriate.

### **Income Approach**

#### ***The Discount Rate Development***

The Weighted Average Cost of Capital (“WACC”) was adopted as the discount rate for valuation. It is the required return on the capital investment of the Target Group. The cost of capital will be different for each source of capital and class of securities. The WACC is the weighted average of the costs of each of the different types of capital, and the weights are proportion of the Target Group’s capital that comes from each source.

The WACC of 17.50% was computed using the following formula:

$$WACC = R_e (E/V) + R_d (D/V) (1-T_c)$$

Where:

*WACC = weighted average cost of capital*

*R<sub>e</sub> = cost of equity*

*R<sub>d</sub> = cost of debt*

*E = value of the Company's equity*

*D = value of the Company's debt*

*V = sum of the values of the Company's equity and debt*

*E/V = weight of equity*

*D/V = weight of debt*

*T<sub>c</sub> = corporate tax rate*

## I. Cost of Equity

The cost of equity of 8.39% was determined using the Capital Asset Pricing Model (hereinafter referred to as "CAPM") which describes the relationship between the risk of a particular asset, its market price and the expected return to the investor, that investors required additional return to compensate additional risk associated by the following formula:

$$R_e = R_f + \beta * MRP$$

Where:

*R<sub>e</sub> = cost of equity*

*R<sub>f</sub> = risk-free rate*

*β = beta coefficient*

*MRP = market risk premium*

### A. *R<sub>f</sub>*.

In line with market practice for investments denominated in Renminbi, China, the yield rate of China government bond, and, in this case, the yield rate of 10-year government bond of 3.71% was adopted as the risk free rate (Rf).

## *B. $\beta$ .*

The beta coefficient ( $\beta$ ) measures the risk of an asset relative to the overall market. It reflects the sensitivity of an asset's value to economic variables or risks that affect the values of all risky assets, including economic growth rates, interest rates, exchange rates and inflation rates. As the Target Group is not a listed company and Alpha Peak has limited trade for 2-year preceding the Valuation Date, it is not possible to determine its beta. Approximate for the beta for the Target Group was, instead, estimated by taking the average of the betas of publicly listed companies similar to the Target Group (i.e. comparable companies), adjusting for differences in corporate tax rates and leverage compositions.

The betas of the comparable companies were adjusted using the generally accepted formula which is based on the assumption that a security's beta moves toward the market average over time. The unlevered beta was calculated to consider the differences in corporate tax rates and leverage compositions of the comparable companies. The unlevered beta removes the effects of the use of leverage on the capital structure of a firm. Removing the debt component allows an investor to compare the base level of risk between various companies.

The average of the unlevered betas of the comparable companies of 0.73 was then being relevered to a 0.79 by taking into account of the Target Group's current corporate tax rate of 25.0%.

## **II. Cost of Debt**

We assumed the before tax cost of debt of 5.00%, which was determined based on the existing bank loan interest rate of the Target Group. Since the interest paid on debts are tax-deductible expense for the Target Group, the cost of the Target Group obtaining debt funds is less than the required rate of return of the suppliers of the debt capital.

## **III. Capital Structure**

The capital structure of 10.0% debt and 90.0% equity was determined by the average of the capital structure of the comparable companies and with reference to the Projections provided by the Management.

#### **IV. Small Capitalization Risk Premium**

Small capitalization risk premium is the excess return that an investor would demand in order to compensate for the additional risk over that of the entire stock market when investing in a small capitalization company.

A number of studies were conducted in the U.S. which concludes that the risk premium associated with a small company is over and above the amount that would be warranted just as a result of the Target Group's systematic risk derived from the CAPM. According to the market capitalization of the Target Group, a small capitalization risk premium of 5.59% is applicable as at the Valuation Date.

#### **Company Specific Premium**

The company specific risks associated with the Target Group are ones typically associated with an expansion business, mainly related to the successful establishment and implementation of the business plan. To reflect the risks, a company specific risk premium of 5.0% is added in developing the discount rate for the Target Group.

#### **Concluded Value under Discount Cash Flow Method**

Based on the assumptions, management information, own valuation considerations and benchmarking, we have valued the Target Group at C\$4,718,000 (or C\$0.065 on per Alpha Peak Share basis) as at the Valuation Date by applying the Discount Cash Flow Method.

The table below provides an overview of the results from the Discount Cash Flow Method for the valuation of 100% equity interest in the Target Group.

*Exhibit 6: Calculation of 100% Equity Interest in the Target Group*

<i>in RMB '000 unless specified otherwise</i>	
<b>Sum of Present Value of Free Cash Flow to Firm</b>	<b>33,599</b>
Add: Non-operating Asset (Note 1)	9,000
Less: Non-operating Liability	-
<b>Business Enterprise Value</b>	<b>42,599</b>
Add: Excess Cash	-
Less: Debts	(10,905)
<b>100% Equity Value before Discount for Lack of Marketability</b>	<b>31,694</b>
Less: Discount for Lack of Marketability (“DLOM”) (20.89%)	(6,621)
<b>100% Equity Value after DLOM</b>	<b>25,073</b>
CADCNY	5.3142
<b>100% Equity Interest after DLOM (CAD'000)</b>	<b>4,718</b>
Outstanding Alpha Peak Shares	72,077,073
<b>100% Equity Value in the Target Group on per Alpha Peak Share Basis</b>	<b>C\$0.065</b>

*Note 1: Non-operating asset represents the structured deposit of RMB9,000,000 which is held for investment purpose by the management of Gongga.*

As mentioned in the section of Additional Consideration in Valuation, a control premium is the additional consideration that an investor would pay over a marketable minority equity value in order to own a controlling interest in the common stock of a company, thus, discount of lack of control will be applied for valuation of equity interest held by the minority shareholders of a company. For Disinterested Shareholders who lack control of the Target Group, we have adopted a discount for lack of control of 20.6% (based on the control premium of 26.0%) before adopting the discount for lack of marketability, thus, the equity value of the Target Group indirectly held by the Disinterested Shareholders on per Alpha Peak Share basis is C\$0.052.

## **Market Approach**

*Market Approach* is based upon the principle of substitution premise that a prudent buyer will pay no more for an asset than it would cost to acquire a substitute asset with the same utility. Therefore, we analyzed prices at which the equity or invested capital in similar business changed hands. We have adopted the GPCM in arriving at our opinion of value of the Target Group. Since the Target Group is the sole investment of Alpha Peak, and, other than the Target Group, Alpha Peak has no operations and investments, the market capitalization of Alpha Peak may indicate the equity value of the Target Group; thus, we adopted the trading price of Alpha Peak (the “Trading Price Method”) for cross-check purpose.

### *Guideline Public Company Method*

The market value of the Target Group is based on prices at which stocks or share interests of similar companies are trading in a public market.

Assumptions under the GPCM include but not limited to:

- The existence of good guideline public companies; and
- The market is efficient.

## **Selection of Guideline Public Companies**

We conducted searches on guideline public companies which have business natures and places of operation similar to that of the Target Group from Bloomberg. In the selection of guideline public companies, business nature is the most determinant factor. One of the considerations in determining the guideline public companies is that the revenue of these companies are generated from similar businesses carried out by the Target Group. When applying the GPCM, we have considered a company to be a guideline public company if the company is principally engaged in the development and operation of scenic spot(s). A list of 41 candidates were identified based on keyword searching, country and domicile filtering, as well as business classification. To the best of our knowledge, this sample is full and exhaustive and was selected on our best effort and unbiased on search from Bloomberg.

Among those 41 candidates, 35 companies were excluded as potential guideline public companies since their revenue of operation and development of scenic spot is not the main source of total revenue or insufficient financial data. Consequently, a total of 6 guideline public companies was chosen to conduct the valuation for Target Group.

To obtain a reasonably sufficient sample size for comparison purpose, our identifiable selection criteria are listed below:

- Principal business location in China;
- Revenues derived from similar business to that of the Target Group; and
- Sufficient data, including financial figures, market capitalization can be obtained from public sources

### **Shortlisted Guideline Public Companies**

#### ***(1) Lijiang Yulong Tourism Co Ltd (002033 CH Equity)***

*LiJiang YuLong Tourism Co., Ltd. provides travel services in Lijiang, Yunnan. The Company provides cableway transportation, bus transportation, food and beverages services, and other related tourism services.*

#### ***(2) Emei Shan Tourism Co (000888 CH Equity)***

*Emei Shan Tourism Company Ltd. provides travel products and services in the Emei Shan area. The Company sells park tickets, operates cable cars, offers scenic tours, manages hotels, and provides travel agency services.*

#### ***(3) Huangshan Tourism Development Co Ltd (900942 CH Equity)***

*Huangshan Tourism Development Co., Ltd. operates in the tourism industry. The Company provides cableway transportation, sells garden tickets, operates hotels and restaurants, and provides tourism services.*

#### ***(4) Zhangjiajie Tourism Group Co Ltd (000430 CH Equity)***

*Zhangjiajie Tourism Group Co Ltd. develops travel resources, constructs travel facilities, and provides travel services.*

**(5) Anhui Jiuhuashan Tourism Development Co Ltd (603199 CH Equity)**

*Anhui Jiuhuashan Tourism Development Co., Ltd. is involved in capital management, travel services, tourism product development and management, new tourism projects and the development of new attractions, tourist information and other related businesses, development prospects.*

**(6) Guilin Tourism Co Ltd (000978 CH Equity)**

*Guilin Tourism Co Ltd. provides travel services in Guilin, Guangxi. The Company's services include touring boat operation, bus transportation, taxi service, and travel arrangement.*

### **Selection of Multiple**

The adjusted price to book (“Adjusted P/B”) multiple is considered appropriate for this valuation. Development and operation of scenic spot(s) is characterized as an asset-heavy business that usually needs continuous capital investments. For asset-heavy business, net asset is a relatively reliable multiple to measure its value. Instead of using net book value of the Target Group, the adjusted net book value of the Target Group has been used after size-adjustment. The assets of the Target Group such as land lease and other physical structures are considered to be the major income-producing assets of the Project. Besides, according to the financial report, only a few intangible assets exist, so it is appropriate to use adjusted price to book ratio in this case.

### **Adjustments for Multiple**

Guideline public companies are often significantly different in size as compared to the Target Group, which can lead to different risk premiums with respect to company size. A large size guideline public company with lower size risk premium than the Target Group generally implied lower inherent risk in terms of business operation and financial performance, resulting in higher valuation multiple that derives into higher value. Correspondingly, the Target Group with higher size risk premium indicates higher business risk, causing lower valuation multiple reflected by the smaller business size.

Therefore, the P/B multiple is adjusted to account the difference in business size effect between the guideline public companies and the Target Group by using the following formula suggested by Nina Milenkovic<sup>7</sup>:

$$\text{Size - Adjusted Multiple} = \frac{1}{\frac{1}{M_{or}} + (SRP_s - SRP_B)}$$

where:

*M<sub>or</sub>* is the original P/B multiple of the guideline public companies.

*SRP<sub>s</sub>* is the Company Specific Risk Premium of the Target Group.

*SRP<sub>B</sub>* is the Specific Risk Premium of the guideline public companies.

With reference to the Duff & Phelps Valuation Handbook, a pretax company risk premium, 23.45% is applied to the Target Group, and a range between 9.11% and 14.96% is applied to the guideline public companies base on their respective trailing 12-month sales sizes, debt-to-equity ratio and tax rate. As a result, an average Adjusted P/B multiple of 1.44 is computed as follows:

*Exhibit 7: Adjusted P/B Multiple*

<b>Guideline Public Company</b>	<b>Unadjusted P/B Multiple</b>	<b>Adjustment</b>	<b>Adjusted P/B Multiple</b>
002033 CH Equity	1.59	10.67%	1.36
000888 CH Equity	1.58	11.40%	1.34
900942 CH Equity	1.82	9.80%	1.55
000430 CH Equity	1.54	11.24%	1.31
603199 CH Equity	2.17	8.49%	1.84
000978 CH Equity	1.51	14.33%	1.24
<b>Average</b>	<b>1.70</b>		<b>1.44</b>
<b>Median</b>	<b>1.58</b>		<b>1.35</b>

<sup>7</sup> Market Multiples Adjustments for Differences in Risk Profile — An Airline Company Example

## **Additional Consideration in Valuation**

### ***Discount on Lack of Marketability***

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. Although the marketability discount is always observed and studied based on minority interest, its impact on the controlling equity interest valuation may be also substantial. In this case, the DLOM of 20.89% was adopted, which was with reference to *Determining Discounts for Lack of Marketability: A Companion Guide to The FMV Restricted Stock Study (2016 Edition)* (the “FMV Study”) published by FMV Opinions, Inc.

### ***Control Premium***

A control premium is defined as the additional consideration that an investor would pay over a marketable minority equity value (i.e., current, publicly traded stock prices) in order to own a controlling interest in the common stock of a company. It is the amount an investor will pay to acquire control of a company, typically an amount higher than the current market value of the company. An investor seeking to acquire control of a company is highly motivated, and is typically willing to pay more; this often comes into play when one company is trying to acquire another, and is trying to convince the second company to agree the deal. In this valuation, a control premium of 26.0% for Services and Other Industry is applied based on the study conducted by Mergerstat.<sup>8</sup> The FactSet Mergerstat/BVR Control Premium Study is an online searchable database that provides empirical support for quantifying control premiums, implied minority discounts, and public company valuation multiples. According to Mergerstat, the research has covered 10,780 transactions, most of which are mergers and acquisitions for 100% interest as well as takeovers and buyouts for controlling stake.

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<sup>8</sup> Mergerstat Control Premium Study 2nd Quarter 2017

The database has taken into account prior 19 years detailed transaction data across different industries, thus we consider the database as comprehensive and appropriate in providing empirical support for quantifying control premiums, implied minority discounts, and public company valuation multiples.

### **Concluded Value under Guideline Public Company Method**

Regarding the valuation of 100% equity interest in the Target Group, we are of the opinion that the indicated multiple under the *GPCM* is reasonable and appropriate when considering the comparability of those guideline public companies.

#### *Exhibit 8: Calculation of 100% Equity Interest in the Target Group*

<i>in C\$'000 unless specified otherwise</i>	<b>Adjusted P/B</b>
<b>Multiple (x)</b>	1.44
<b>Net Asset Value</b>	3,187
<b>Adjusted for Non-operating Asset and/or Liability</b>	(1,715)
Adjusted Net Asset Value	1,472
<b>Calculated Value before Adjustments</b>	<b>2,119</b>
Add: Non-operating Asset (Note 1)	1,715
Less: Non-operating Liability	-
<b>100% Equity Value before Control Premium</b>	<b>3,834</b>
Add: Control Premium (26.00%)	997
<b>100% Equity Value before Discount for Lack of Marketability</b>	<b>4,831</b>
Less: Discount for Lack of Marketability (20.89%)	(1,009)
<b>100% Equity Value after DLOM (rounded)</b>	<b>3,822</b>

*Note 1: Non-operating asset represents the structured deposit of C\$1,715,000 (or RMB9,000,000) which is held for investment purpose by the management of Gongga.*

For the Disinterested Shareholders who lack control of the Target Group, the control premium of 26.0% is not applicable for valuation of equity interest held by the minority shareholders under the *GPCM*. Thus, the equity value of the Target Group indirectly held by the Disinterested Shareholders on per Alpha Peak Share basis is C\$0.042.

## CROSS-CHECK FOR THE CONCLUDED VALUE

Since the Target Group is the sole investment of Alpha Peak, the holding company of the Target Group, and, other than the Target Group, Alpha Peak has no operations and investments, the market capitalization of Alpha Peak may indicate the equity value of the Target Group. Therefore, we have adopted the trading price of Alpha Peak for cross-check purpose. In arriving at the value of 100% equity interest in the Target Group under the Trading Price Method, the closing price of Alpha Peak over the 10 and 90 days preceding the Valuation Date has been adopted. Given that a number of events occurred in the capital market beyond the 90-day preceding the Valuation Date, the trading price of Alpha Peak beyond the 90-day preceding the Valuation Date was deemed not representative. The 100% equity value in the Target Group using the *GPCM* and the *Discount Cash Flow Method* respectively is within the adjusted market capitalization of Alpha Peak based on its closing share price over the 10 and 90 days preceding the Valuation Date.

### *Exhibit 9: Calculation of 100% Equity Interest in the Target Group*

<i>in C\$ unless specified otherwise</i>	10-Day Preceding	30-Day Preceding	90-Day Preceding
<b>Market Capitalization of Alpha Peak Based on Closing Share Price</b>	<b>3,964,200</b>	<b>3,964,200</b>	<b>5,798,194</b>
Add: Control Premium <sup>Note 1</sup> (26.00%)	1,030,692	1,030,692	1,507,530
Value before Liquidity Discount	4,994,892	4,994,892	7,305,724
Less: Liquidity Discount <sup>Note 2</sup> (20.89%)	(1,043,433)	(1,043,433)	(1,526,166)
100% Equity Value after Liquidity Discount	3,951,459	3,951,459	5,779,559
<b>100% Equity Value after Liquidity Discount (rounded)</b>	<b>3,951,000</b>	<b>3,951,000</b>	<b>5,780,000</b>

*Note 1: A control premium is the premium an investor is willing to pay in addition to a marketable minority equity value to obtain controlling interest in a business subject. The published market price represents the market transaction of minority interests; therefore, adjustment has been made to reflect the degree of control associated with 100% equity interest of the Target Group.*

*Note 2: The Target Company is a private company, whose share is usually worth less than an otherwise comparable share in a publicly held company. Refer to the trading volume of Alpha Peak, there is no trading for 30-day preceding the Valuation Date and limited trading volume of Alpha Peak for 90-day preceding the Valuation Date, a discount of 20.89% based on the 2016 edition of The FMV Restricted Stock Study Companion Guide has been applied to reflect its illiquidity of Alpha Peak's shares.*

## CONCLUSION

Based upon the investigation and analysis outlined above and on the valuation methods employed, it is our opinion that the *fair market value* of 100% equity interest in the Target Group as at the Valuation Date is reasonably stated as below.

<i>As at 30 September 2018</i>	<b>Market Approach</b>	<b>Income Approach</b>
100% Equity Interest in the Target Group	C\$3,822,000	C\$4,718,000
Outstanding Alpha Peak Shares	72,077,073	
100% Equity Value in the Target Group on per Alpha Peak Share Basis	C\$0.053	C\$0.065
<b>Fair Market Value of 100% Equity Interest in the Target Group</b>	<b>C\$3,822,000 to C\$4,718,000</b>	
Fair Market Value on per Alpha Peak Share basis	C\$0.053 to C\$0.065	

This valuation was performed in accordance with the standards set forth by the Canadian Institute of Chartered Business Valuators and the disclosure provided in the Rule that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained, and we, being an independent party in this project, have no intentions to give out false and misleading information.

The conclusion of value arrived herein is based on the assumption that the current level of management expertise and effectiveness, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed. We hereby certify that we have neither present nor prospective interests in Alpha Peak, their holding company and the Target Group, and the value reported.

## **FAIRNESS CONCLUSION**

### **Introduction**

The fairness of the Disinterested Shareholder Distribution Amount is tested by: (i) calculating, at the time of completion of the Transaction, the fair market value of the Target Group and the fair market value of equity interest of the Target Group indirectly held by the Disinterested Shareholders; and (ii) calculating whether the fair market value of the Disinterested Shareholder Distribution Amount is within or above the range of the fair market value of the equity interest indirectly held the Disinterested Shareholders.

There are many events that are assumed will occur between the Valuation Date and the closing of the Transaction. These events are either conditions of the Transaction or are necessary (e.g. legal costs) aspects of the closing basis. The fairness conclusion is based on the assumption that there are no material changes in the fair market value of the Target Group from the Valuation Date to the date hereof.

### **Valuation of Total Wonder Enterprises Limited**

Based upon the investigation and analysis outlined above and on the valuation methods employed, it is our opinion that the fair market value of 100% equity interest in the Target Group as at the Valuation Date is in the range of C\$0.053 to C\$0.065 on per Alpha Peak Share basis and the fair market value of equity interest of the Target Group indirectly held by the Disinterested Shareholders is C\$0.042 to C\$0.052 on per Alpha Peak Share basis.

### **The Transaction Consideration**

We understand that the Transaction Consideration and the Disinterested Shareholder Distribution Amount is C\$0.075 on per Alpha Peak Share basis.

### **Fairness Conclusion**

Based on the analysis described above, we are of the opinion that, as at the date hereof, the Disinterested Shareholder Distribution Amount is fair, from a financial point of view, to the Disinterested Shareholders of the Company.

We hereby certify that we have neither present nor prospective interests in Alpha Peak, its holding company (if any), the Target Group, and the value reported.

## QUALIFICATION

The Report preparation, and related fieldwork and due diligence investigations, were carried out by Dr. Jacqueline W. Huang and certain qualified employees of HKAPPRAISAL.

Dr. Huang is an experienced valuation professional in Hong Kong. Dr. Huang is an Accredited Senior Appraiser (Business Valuation) of the American Society of Appraisers ("ASA"), a regular member of the Hong Kong Society of Financial Analysts ("HKSFA") and a Ph.D. from the University of Hong Kong. She has been conducting business valuation for various purposes since 2005 and has extensive experience in public transaction services. The clients Dr. Huang serviced include corporations listed on stock exchanges world-wide, including but not limited to Hong Kong, Singapore, London and New York.

Dr. Huang obtained her doctor degree in real estate economics from the University of Hong Kong in 2002. She was the first exchange student sent to Hong Kong by the department of mathematics of Sun Yat-sen University (中山大學), after graduation with her first-honor master degree.

Respectfully submitted,  
For and on behalf of  
**HONG KONG APPRAISAL ADVISORY LIMITED**

*“Jacqueline W. Huang”*

Jacqueline W. Huang, Ph.D, HKSFA, ASA  
Managing Director

Analyse and report by:  
Dr. Jacqueline W. Huang, ASA, HKSFA  
Rita W. P. Lau, CPA  
Lincoln K. S. Hui, MSc.  
Patrick Chan, BEc.  
Chris Hai, MSc.

## CERTIFICATION

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analysis, opinions, and conclusions are limited only by the reported assumptions and limited conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the Target Group that is the subject of this report, and I have no personal interest with respect to the parties involved.
- I have no bias with respect to the Target Group that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analysis, opinions, and conclusions were developed, and this report has been prepared in accordance with standards set forth by the Canadian Institute of Chartered Business Valuators and the disclosure provided in the Rule.
- Anyone provided significant assistance to the person signing this certification is identified in the report.

*“Jacqueline W. Huang”*

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Jacqueline W. Huang, Ph.D, ASA

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*"Rita Lau"*

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Rita Lau, CPA

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*“Lincoln Hui”*

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Lincoln Hui, MSc.

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- Anyone provided significant assistance to the person signing this certification is identified in the report.

*"Patrick Chan"*

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Patrick Chan, BEc.

## CERTIFICATION

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- Anyone provided significant assistance to the person signing this certification is identified in the report.

*“Chris Hai”*

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Chris Hai, MSc.

## **NORMAL SERVICE CONDITIONS**

The services provided by Hong Kong Appraisal Advisory Limited will be performed in accordance with standards set forth by the Canadian Institute of Chartered Business Valuators and the disclosure provided in the Rule. We assume, without independent verification, the accuracy of all data provided to us. Our report is to be used for the specific purposes stated herein and any other use is invalid. No one should rely on our report as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document you prepare or distribute to third parties may be made without our written consent. All files, workpapers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least five years.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including reasonable attorneys' fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence. In the event we are subject to any liability in connection with this engagement, such liability will be limited to the amount of fees we received for this engagement.

We reserve the right to include your company name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings.

## APPENDIX I – CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE TARGET GROUP

### Total Wonder Enterprises Limited

	30-Sep-18 CS	31-Dec-17 CS	31-Dec-16 CS
<b>Non-Current Assets</b>			
Property, plant and equipment	1,764,680	1,820,564	19,582,723
Intangible assets arising from service concession arrangement	-	-	8,063,027
Prepaid lease payment	293,983	296,600	307,865
Intangible asset	5,745	8,003	12,474
Advance to the PRC government	2,196,529	2,014,733	1,904,130
	<b>4,260,937</b>	<b>4,139,900</b>	<b>29,870,219</b>
<b>Current Assets</b>			
Inventories	25,045	26,334	30,085
Trade and other receivables	14,631	112,609	111,118
Prepayment	9,887	9,975	10,017
Bank balances and cash	403,111	2,055,055	7,057,529
Structured deposit	1,715,200	2,403,430	-
	<b>2,167,874</b>	<b>4,607,403</b>	<b>7,208,749</b>
<b>Current Liabilities</b>			
Other payables and accruals	1,138,118	1,997,629	1,675,439
Amount due to CN life style	-	-	201,277
Amount due to related parties	51,302	48,216	-
	<b>1,189,420</b>	<b>2,045,845</b>	<b>1,876,716</b>
<b>Net Current Liabilities</b>	<b>978,454</b>	<b>2,561,558</b>	<b>5,332,033</b>
<b>Total Asset Less Current Liabilities</b>	<b>5,239,391</b>	<b>6,701,458</b>	<b>35,202,252</b>
<b>Non-Current Liabilities</b>			
Deferred tax liabilities	-	-	-
Loan from related parties	2,052,064	1,928,689	2,075,712
Amount due from related parties	-	858,157	-
	<b>2,052,064</b>	<b>2,786,846</b>	<b>2,075,712</b>
<b>Net Asset</b>	<b>3,187,327</b>	<b>3,914,612</b>	<b>33,126,540</b>
<b>Equity</b>			
Share capital	15,291,884	13,551,884	13,551,884
Share option reserve	33,854,157	33,854,158	34,398,171
Capital reserve	2,999,464	2,999,463	2,999,463
Revaluation reserve	-	-	-
Exchange reserve	6,420,721	5,938,077	5,938,947
Accumulated losses	(52,428,970)	(23,533,519)	(19,966,123)
Current year/period loss	(2,949,929)	(29,439,464)	(3,795,802)
Current year loss - share option forfeiture	-	544,013	-
	<b>3,187,327</b>	<b>3,914,612</b>	<b>33,126,540</b>

## APPENDIX II – CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE OF THE TARGET GROUP

### Total Wonder Enterprises Limited

	For 9-month ended 30-Sep-18 C\$	For the year ended 31-Dec-17 C\$	For the year ended 31-Dec-16 C\$
Revenue	375,363	1,391,549	1,647,025
Cost of sales	(940,203)	(2,231,454)	(2,721,094)
Gross loss	(564,840)	(839,905)	(1,074,069)
Other income	145,418	126,130	151,629
Other (loss)/gain	(1,061,948)	142,795	376,699
Marketing expenses	(582,720)	(880,177)	(1,457,367)
Impairment loss on intangible asset	-	(7,770,223)	-
Written off on property, plant and equipment	-	(7,471,811)	-
Impairment on property, plant and equipment	-	(10,163,037)	-
Administrative expenses	(813,522)	(2,483,632)	(1,737,060)
Finance cost	(72,317)	(99,604)	(102,147)
Loss before tax	(2,949,929)	(29,439,464)	(3,842,315)
Income tax credit	-	-	46,513
Loss for the period/year	(2,949,929)	(29,439,464)	(3,795,802)
Other comprehensive loss			
Exchange difference on translation	(14,546)	(4,959,954)	(4,959,954)
Gain on revaluation of property, plant and equipment	-	-	1,472,915
Deferred tax on revaluation of property, plant and equipment	-	-	(368,229)
Impairment loss of property, plant and equipment	-	-	(4,607,728)
Other comprehensive loss for the period/year	(14,546)	(4,959,954)	(8,462,996)
Total comprehensive expenses for the period/year	(2,964,475)	(34,399,418)	(12,258,798)

**- END OF REPORT -**

## SCHEDULE D

### DISSENT PROVISIONS UNDER THE BUSINESS CORPORATIONS ACT (BRITISH COLUMBIA)

#### Definitions and Application

237 (1) In this Division:

“**dissenter**” means a shareholder who, being entitled to do so, sends written notice of dissent when and as required by section 242;

“**notice shares**” means, in relation to a notice of dissent, the shares in respect of which dissent is being exercised under the notice of dissent;

“**payout value**” means,

- (a) in the case of a dissent in respect of a resolution, the fair value that the notice shares had immediately before the passing of the resolution,
- (b) in the case of a dissent in respect of an arrangement approved by a court order made under section 291 (2) (c) that permits dissent, the fair value that the notice shares had immediately before the passing of the resolution adopting the arrangement,
- (c) in the case of a dissent in respect of a matter approved or authorized by any other court order that permits dissent, the fair value that the notice shares had at the time specified by the court order, or
- (d) in the case of a dissent in respect of a community contribution company, the value of the notice shares set out in the regulations,

excluding any appreciation or depreciation in anticipation of the corporate action approved or authorized by the resolution or court order unless exclusion would be inequitable.

(2) This Division applies to any right of dissent exercisable by a shareholder except to the extent that

- (a) the court orders otherwise, or
- (b) in the case of a right of dissent authorized by a resolution referred to in section 238 (1) (g), the court orders otherwise or the resolution provides otherwise.

#### Right to Dissent

238 (1) A shareholder of a company, whether or not the shareholder’s shares carry the right to vote, is entitled to dissent as follows:

- (a) under section 260, in respect of a resolution to alter the articles
  - (i) to alter restrictions on the powers of the company or on the business the company is permitted to carry on, or

- (ii) without limiting subparagraph (i), in the case of a community contribution company, to alter any of the company's community purposes within the meaning of section 51.91;
  - (b) under section 272, in respect of a resolution to adopt an amalgamation agreement;
  - (c) under section 287, in respect of a resolution to approve an amalgamation under Division 4 of Part 9;
  - (d) in respect of a resolution to approve an arrangement, the terms of which arrangement permit dissent;
  - (e) under section 301 (5), in respect of a resolution to authorize or ratify the sale, lease or other disposition of all or substantially all of the company's undertaking;
  - (f) under section 309, in respect of a resolution to authorize the continuation of the company into a jurisdiction other than British Columbia;
  - (g) in respect of any other resolution, if dissent is authorized by the resolution;
  - (h) in respect of any court order that permits dissent.
- (2) A shareholder wishing to dissent must

- (a) prepare a separate notice of dissent under section 242 for
    - (i) the shareholder, if the shareholder is dissenting on the shareholder's own behalf, and
    - (ii) each other person who beneficially owns shares registered in the shareholder's name and on whose behalf the shareholder is dissenting,
  - (a) identify in each notice of dissent, in accordance with section 242 (4), the person on whose behalf dissent is being exercised in that notice of dissent, and
  - (b) dissent with respect to all of the shares, registered in the shareholder's name, of which the person identified under paragraph (b) of this subsection is the beneficial owner.
- (3) Without limiting subsection (2), a person who wishes to have dissent exercised with respect to shares of which the person is the beneficial owner must
- (a) dissent with respect to all of the shares, if any, of which the person is both the registered owner and the beneficial owner, and
  - (b) cause each shareholder who is a registered owner of any other shares of which the person is the beneficial owner to dissent with respect to all of those shares.

### **Waiver of Right to Dissent**

- 239** (1) A shareholder may not waive generally a right to dissent but may, in writing, waive the right to dissent with respect to a particular corporate action.
- (2) A shareholder wishing to waive a right of dissent with respect to a particular corporate action must

- (a) provide to the company a separate waiver for
  - (i) the shareholder, if the shareholder is providing a waiver on the shareholder's own behalf, and
  - (ii) each other person who beneficially owns shares registered in the shareholder's name and on whose behalf the shareholder is providing a waiver, and
- (a) identify in each waiver the person on whose behalf the waiver is made.
- (3) If a shareholder waives a right of dissent with respect to a particular corporate action and indicates in the waiver that the right to dissent is being waived on the shareholder's own behalf, the shareholder's right to dissent with respect to the particular corporate action terminates in respect of the shares of which the shareholder is both the registered owner and the beneficial owner, and this Division ceases to apply to
  - (a) the shareholder in respect of the shares of which the shareholder is both the registered owner and the beneficial owner, and
  - (b) any other shareholders, who are registered owners of shares beneficially owned by the first mentioned shareholder, in respect of the shares that are beneficially owned by the first mentioned shareholder.
- (4) If a shareholder waives a right of dissent with respect to a particular corporate action and indicates in the waiver that the right to dissent is being waived on behalf of a specified person who beneficially owns shares registered in the name of the shareholder, the right of shareholders who are registered owners of shares beneficially owned by that specified person to dissent on behalf of that specified person with respect to the particular corporate action terminates and this Division ceases to apply to those shareholders in respect of the shares that are beneficially owned by that specified person.

**Notice of Resolution**

- 240** (1) If a resolution in respect of which a shareholder is entitled to dissent is to be considered at a meeting of shareholders, the company must, at least the prescribed number of days before the date of the proposed meeting, send to each of its shareholders, whether or not their shares carry the right to vote,
- (a) a copy of the proposed resolution, and
  - (b) a notice of the meeting that specifies the date of the meeting, and contains a statement advising of the right to send a notice of dissent.
- (2) If a resolution in respect of which a shareholder is entitled to dissent is to be passed as a consent resolution of shareholders or as a resolution of directors and the earliest date on which that resolution can be passed is specified in the resolution or in the statement referred to in paragraph (b), the company may, at least 21 days before that specified date, send to each of its shareholders, whether or not their shares carry the right to vote,
- (a) a copy of the proposed resolution, and
  - (b) a statement advising of the right to send a notice of dissent.

- (3) If a resolution in respect of which a shareholder is entitled to dissent was or is to be passed as a resolution of shareholders without the company complying with subsection (1) or (2), or was or is to be passed as a directors' resolution without the company complying with subsection (2), the company must, before or within 14 days after the passing of the resolution, send to each of its shareholders who has not, on behalf of every person who beneficially owns shares registered in the name of the shareholder, consented to the resolution or voted in favour of the resolution, whether or not their shares carry the right to vote,
- (a) a copy of the resolution,
  - (b) a statement advising of the right to send a notice of dissent, and
  - (c) if the resolution has passed, notification of that fact and the date on which it was passed.
- (4) Nothing in subsection (1), (2) or (3) gives a shareholder a right to vote in a meeting at which, or on a resolution on which, the shareholder would not otherwise be entitled to vote.

### **Notice of Court Orders**

- 241** (1) If a court order provides for a right of dissent, the company must, not later than 14 days after the date on which the company receives a copy of the entered order, send to each shareholder who is entitled to exercise that right of dissent
- (a) a copy of the entered order, and
  - (b) a statement advising of the right to send a notice of dissent.

### **Notice of Dissent**

- 242** (1) A shareholder intending to dissent in respect of a resolution referred to in section 238 (1) (a), (b), (c), (d), (e) or (f) must,
- (a) if the company has complied with section 240 (1) or (2), send written notice of dissent to the company at least 2 days before the date on which the resolution is to be passed or can be passed, as the case may be,
  - (b) if the company has complied with section 240(3), send written notice of dissent to the company not more than 14 days after receiving the records referred to in that section, or
  - (c) if the company has not complied with section 240 (1), (2) or (3), send written notice of dissent to the company not more than 14 days after the later of
    - (i) the date on which the shareholder learns that the resolution was passed, and
    - (ii) the date on which the shareholder learns that the shareholder is entitled to dissent.
- (2) A shareholder intending to dissent in respect of a resolution referred to in section 238 (1) (g) must send written notice of dissent to the company
- (a) on or before the date specified by the resolution or in the statement referred to in section 240(2) (b) or (3) (b) as the last date by which notice of dissent must be sent, or

- (b) if the resolution or statement does not specify a date, in accordance with subsection (1) of this section.
- (3) A shareholder intending to dissent under section 238 (1) (h) in respect of a court order that permits dissent must send written notice of dissent to the company
- (a) within the number of days, specified by the court order, after the shareholder receives the records referred to in section 241, or
  - (b) if the court order does not specify the number of days referred to in paragraph (a) of this subsection, within 14 days after the shareholder receives the records referred to in section 241.
- (4) A notice of dissent sent under this section must set out the number, and the class and series, if applicable, of the notice shares, and must set out whichever of the following is applicable:
- (a) if the notice shares constitute all of the shares of which the shareholder is both the registered owner and beneficial owner and the shareholder owns no other shares of the company as beneficial owner, a statement to that effect;
  - (b) if the notice shares constitute all of the shares of which the shareholder is both the registered owner and beneficial owner but the shareholder owns other shares of the company as beneficial owner, a statement to that effect and
    - (i) the names of the registered owners of those other shares,
    - (ii) the number, and the class and series, if applicable, of those other shares that are held by each of those registered owners, and
    - (iii) a statement that notices of dissent are being, or have been, sent in respect of all of those other shares;
  - (c) if dissent is being exercised by the shareholder on behalf of a beneficial owner who is not the dissenting shareholder, a statement to that effect and
    - (i) the name and address of the beneficial owner, and
    - (ii) a statement that the shareholder is dissenting in relation to all of the shares beneficially owned by the beneficial owner that are registered in the shareholder's name.
- (5) The right of a shareholder to dissent on behalf of a beneficial owner of shares, including the shareholder, terminates and this Division ceases to apply to the shareholder in respect of that beneficial owner if subsections (1) to (4) of this section, as those subsections pertain to that beneficial owner, are not complied with.

### **Notice of Intention to Proceed**

- 243** (1) A company that receives a notice of dissent under section 242 from a dissenter must,
- (a) if the company intends to act on the authority of the resolution or court order in respect of which the notice of dissent was sent, send a notice to the dissenter promptly after the later of

- (i) the date on which the company forms the intention to proceed, and
    - (ii) the date on which the notice of dissent was received, or
  - (a) if the company has acted on the authority of that resolution or court order, promptly send a notice to the dissenter.
- (2) A notice sent under subsection (1) (a) or (b) of this section must
- (a) be dated not earlier than the date on which the notice is sent,
  - (b) state that the company intends to act, or has acted, as the case may be, on the authority of the resolution or court order, and
  - (c) advise the dissenter of the manner in which dissent is to be completed under section 244.

### **Completion of Dissent**

- 244** (1) A dissenter who receives a notice under section 243 must, if the dissenter wishes to proceed with the dissent, send to the company or its transfer agent for the notice shares, within one month after the date of the notice,
- (a) a written statement that the dissenter requires the company to purchase all of the notice shares,
  - (b) the certificates, if any, representing the notice shares, and
  - (c) if section 242 (4) (c) applies, a written statement that complies with subsection (2) of this section.
- (2) The written statement referred to in subsection (1) (c) must
- (a) be signed by the beneficial owner on whose behalf dissent is being exercised, and
  - (b) set out whether or not the beneficial owner is the beneficial owner of other shares of the company and, if so, set out
    - (i) the names of the registered owners of those other shares,
    - (ii) the number, and the class and series, if applicable, of those other shares that are held by each of those registered owners, and
    - (iii) that dissent is being exercised in respect of all of those other shares.
- (3) After the dissenter has complied with subsection (1),
- (a) the dissenter is deemed to have sold to the company the notice shares, and
  - (b) the company is deemed to have purchased those shares, and must comply with section 245, whether or not it is authorized to do so by, and despite any restriction in, its memorandum or articles.
- (4) Unless the court orders otherwise, if the dissenter fails to comply with subsection (1) of this section in relation to notice shares, the right of the dissenter to dissent with respect to those notice shares terminates

and this Division, other than section 247, ceases to apply to the dissenter with respect to those notice shares.

- (5) Unless the court orders otherwise, if a person on whose behalf dissent is being exercised in relation to a particular corporate action fails to ensure that every shareholder who is a registered owner of any of the shares beneficially owned by that person complies with subsection (1) of this section, the right of shareholders who are registered owners of shares beneficially owned by that person to dissent on behalf of that person with respect to that corporate action terminates and this Division, other than section 247, ceases to apply to those shareholders in respect of the shares that are beneficially owned by that person.
- (6) A dissenter who has complied with subsection (1) of this section may not vote, or exercise or assert any rights of a shareholder, in respect of the notice shares, other than under this Division.

### **Payment for Notice Shares**

- 245** (1) A company and a dissenter who has complied with section 244 (1) may agree on the amount of the payout value of the notice shares and, in that event, the company must
- (a) promptly pay that amount to the dissenter, or
  - (b) if subsection (5) of this section applies, promptly send a notice to the dissenter that the company is unable lawfully to pay dissenters for their shares.
- (2) A dissenter who has not entered into an agreement with the company under subsection (1) or the company may apply to the court and the court may
- (a) determine the payout value of the notice shares of those dissenters who have not entered into an agreement with the company under subsection (1), or order that the payout value of those notice shares be established by arbitration or by reference to the registrar, or a referee, of the court,
  - (b) join in the application each dissenter, other than a dissenter who has entered into an agreement with the company under subsection (1), who has complied with section 244 (1), and
  - (c) make consequential orders and give directions it considers appropriate.
- (3) Promptly after a determination of the payout value for notice shares has been made under subsection (2)
- (a) of this section, the company must
    - (a) pay to each dissenter who has complied with section 244 (1) in relation to those notice shares, other than a dissenter who has entered into an agreement with the company under subsection (1) of this section, the payout value applicable to that dissenter's notice shares, or
    - (b) if subsection (5) applies, promptly send a notice to the dissenter that the company is unable lawfully to pay dissenters for their shares.
- (4) If a dissenter receives a notice under subsection (1)(b) or (3)(b)
- (a) the dissenter may, within 30 days after receipt, withdraw the dissenter's notice of dissent, in which case the company is deemed to consent to the withdrawal and this Division, other than section 247, ceases to apply to the dissenter with respect to the notice shares, or

- (b) if the dissenter does not withdraw the notice of dissent in accordance with paragraph (a) of this subsection, the dissenter retains a status as a claimant against the company, to be paid as soon as the company is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the company but in priority to its shareholders.
- (5) A company must not make a payment to a dissenter under this section if there are reasonable grounds for believing that
- (a) the company is insolvent, or
  - (b) the payment would render the company insolvent.

### **Loss of Right to Dissent**

- 246** (1) The right of a dissenter to dissent with respect to notice shares terminates and this Division, other than section 247, ceases to apply to the dissenter with respect to those notice shares, if, before payment is made to the dissenter of the full amount of money to which the dissenter is entitled under section 245 in relation to those notice shares, any of the following events occur:
- (a) the corporate action approved or authorized, or to be approved or authorized, by the resolution or court order in respect of which the notice of dissent was sent is abandoned;
  - (b) the resolution in respect of which the notice of dissent was sent does not pass;
  - (c) the resolution in respect of which the notice of dissent was sent is revoked before the corporate action approved or authorized by that resolution is taken;
  - (d) the notice of dissent was sent in respect of a resolution adopting an amalgamation agreement and the amalgamation is abandoned or, by the terms of the agreement, will not proceed;
  - (e) the arrangement in respect of which the notice of dissent was sent is abandoned or by its terms will not proceed;
  - (f) a court permanently enjoins or sets aside the corporate action approved or authorized by the resolution or court order in respect of which the notice of dissent was sent;
  - (g) with respect to the notice shares, the dissenter consents to, or votes in favour of, the resolution in respect of which the notice of dissent was sent;
  - (h) the notice of dissent is withdrawn with the written consent of the company;
  - (i) the court determines that the dissenter is not entitled to dissent under this Division or that the dissenter is not entitled to dissent with respect to the notice shares under this Division.

### **Shareholders Entitled to Return of Shares and Rights**

- 247** (1) If, under section 244 (4) or (5), 245 (4) (a) or 246, this Division, other than this section, ceases to apply to a dissenter with respect to notice shares,
- (a) the company must return to the dissenter each of the applicable share certificates, if any, sent under section 244 (1) (b) or, if those share certificates are unavailable, replacements for those share certificates,

- (b) the dissenter regains any ability lost under section 244 (6) to vote, or exercise or assert any rights of a shareholder, in respect of the notice shares, and
- (c) the dissenter must return any money that the company paid to the dissenter in respect of the notice shares under, or in purported compliance with, this Division.