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OVERVIEW

The Group is a Chinese restaurant group in Hong Kong operating five full-service restaurants and is recognised for delivering Chinese cuisine and Chinese wedding banquet and dining services. The Group maintains a business philosophy of offering food and services at competitive prices. It is committed to providing memorable dining experiences to its customers by offering food dishes emphasising fresh ingredients and a carefully designed dining environment at affordable prices. With this price-value proposition, it seeks to serve foods at affordable prices with emphasis on the quality of food.

In December 2010, Lam Tei Red Seasons, one of the Group's restaurants, was awarded by the Michelin Guide Hong Kong Macau 2011 the Michelin Bib Gourmand, the Michelin Guide distinction awarded to those restaurants which are judged to be "wonderful restaurants with top-quality cuisine at highly affordable prices". The Michelin Guide was first published in 1900 and is currently published annually covering 23 countries. The Directors believe that the Michelin Guide is one of the world's most well-known and influential restaurant guides to date.

The Group's business can be classified into two major service categories:

- serving Chinese cuisine including Cantonese dim sum and main courses, fresh seafood delicacies and specialty Chinese cuisine such as roast suckling pigs, dishes cooked with charcoal stoves and traditional walled village cuisine (圍村風味菜)
- providing Chinese wedding banquet and dining services for large-scale events

As at the Latest Practicable Date, the Group operated five restaurants under two brands, namely *Red Seasons Aroma Restaurant* (季季紅風味酒家) and *Plentiful Delight Banquet* (喜尚嘉喜宴會廳), to carry out the Group's business. The Group is in the process of establishing its sixth restaurant under *Red Royalty Banquet* (紅爵御宴) (i.e. Red Royalty Banquet Restaurant), which will become its third brand.

In October 2006, the Group established its first restaurant, Lam Tei Red Seasons, under *Red Seasons Aroma Restaurant* (季季紅風味酒家). To expand its market share and further promote the brand of *Red Seasons Aroma Restaurant* (季季紅風味酒家), the Group established another three restaurants under this brand in Tuen Mun, Shatin and Tsuen Wan in August 2009, January 2010 and June 2010, respectively. The restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家) target customers desiring quality food at competitive prices and mainly focus on serving quality Cantonese dim sum and specialty Chinese cuisine, such as roast suckling pigs, fried lotus root cakes (香煎蓮藕餅) and pork ribs with plum sauce (冰淋醬烤骨). Among these restaurants, Lam Tei Red Seasons is renowned as a specialist in serving dishes cooked with charcoal stoves which are not common in Hong Kong nowadays.

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In February 2007, the Group decided to broaden its scope of restaurant business into the provision of Chinese wedding banquet and dining services for large-scale events. In view of the new focus and market positioning strategy, the Group established its second restaurant, Plentiful Delight Banquet Restaurant, under *Plentiful Delight Banquet* (喜尚嘉喜宴會廳), which is the second brand established by the Group. The restaurant serves Cantonese dim sum, fresh seafood delicacies and specialty Chinese cuisine such as traditional walled village cuisine (圍村風味菜). It is equipped with banquet facilities and has a seating capacity of 100 12-seat banquet tables enabling it to serve up to 1,200 guests on a single occasion. The Directors believe that Plentiful Delight Banquet Restaurant came to build up a sustainable customer base and endeavor to enhance local reputation.

In early 2011, encouraged by the success of the restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家) and *Plentiful Delight Banquet* (喜尚嘉喜宴會廳) and the established reputation of the Group for providing Chinese wedding banquet and dining services, the Group decided to take steps to further develop its business and diversify its restaurant portfolio by adopting a new branding strategy. The major step will include the opening of the Group's sixth restaurant in Yuen Long under *Red Royalty Banquet* (紅爵御宴) (i.e. Red Royalty Banquet Restaurant), which will become the third brand established by the Group, targeting customers looking for premium and deluxe Chinese wedding banquet and dining services. It is currently expected that Red Royalty Banquet Restaurant will launch in the fourth quarter of 2011. After the implementation of this branding strategy, the Group will operate six restaurants under three brands.

The Group's current restaurant business principally targets the medium-end restaurant market. It will continue to expand its restaurant network strategically through expanding its market share and promoting brand recognition. It plans to open more restaurants in optimal locations with continuous and steady flow of potential customers and well-developed transportation networks, and identify premises suitable for holding wedding banquets and large-scale events.

To further promote the Group's business in the market, the Group plans to implement a new branding strategy as discussed above. The Directors believe that the new branding strategy can assist the Group in addressing different needs of customers and enlarging its market share in the Chinese restaurant industry in Hong Kong which will further promote the Group's business. For details of the rationale behind the Group's branding strategy, please refer to the sub-paragraph headed "Diversify service and product offerings with the implementation of a new branding strategy" of the paragraph headed "Business strategies" in the section headed "Future Plans and Use of Proceeds" in this prospectus.

The Group maintains a business philosophy of offering food and services at competitive prices. To deliver high quality food, the Group provides fresh, made-to-order cuisine emphasising on bringing out the flavour from fresh and quality food ingredients and seasonings. In this connection, the Group places high emphasis on identifying and ensuring a reliable supply of fresh and quality food ingredients and reviews the quality of food ingredients on a regular basis. In addition to using fresh and quality food ingredients, cooking techniques

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are just as important to the Group. Cooking technique for each dish is chosen carefully and the Group's chefs set high standards for quality execution. In order to highlight qualities of food ingredients on top of flavour, aroma, colour and texture, the Group also endeavours to use cooking methods and recipes that maximise the nutritional value of food ingredients and allow dishes to be served at the most desired time and temperature. Each of the Group's restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家) is accredited as an EatSmart Restaurant (有「營」食肆) by the Department of Health since April 2011, recognising the restaurants' commitment to offering healthy dishes with high nutritional value. The Group is also keen on developing innovative and special Chinese cuisine utilising authentic and ancient recipes to attract customers and differentiate itself from competitors. The Directors believe that the Group's firm adherence to this philosophy has contributed to the success of its restaurants.

The Group has established a reliable management system for the overall operations of its restaurants, covering procurement of food ingredients, food preparation and processing, quality control and development of cuisine and menu items. Further, the senior management of the Group and the management of each restaurant consist of members with over 25 years of experience in the Chinese restaurant industry and are familiar with different aspects of operations of this industry. The Group also implements a well-executed restaurant network expansion strategy and plans to actively seek other food business development opportunities.

The revenue for the year ended 31 December 2010 amounted to approximately HK\$210.3 million, representing an increase of approximately 66.3% as compared with that of the year ended 31 December 2009. The increase was primarily attributable to, among others, addition of new restaurants and the recovery of consumer confidence in Hong Kong from the economic downturn.

The profit attributable to owners of the Company for the year ended 31 December 2010 amounted to approximately HK\$10.0 million, representing an increase of approximately 5.9% as compared with that for the year ended 31 December 2009. The net profit margin, calculated as profit attributable to owners of the Company divided by revenue decreased from approximately 7.4% for the year ended 31 December 2009 to approximately 4.7% for the year ended 31 December 2010, primarily as a result of the initial set up cost, including kitchen consumables, operation staff cost and operating lease rental expenses incurred before the commencement of the two new restaurants, Shatin Red Seasons and Tsuen Wan Red Seasons, during the year ended 31 December 2010.

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The table below sets forth a breakdown of the Group's revenue as derived from each restaurant and as a percentage of its total revenue during the Track Record Period:

	Year ended 31 December			
	2009		2010	
	<i>HK\$'000</i>	<i>% of total revenue</i>	<i>HK\$'000</i>	<i>% of total revenue</i>
Plentiful Delight Banquet				
Restaurant	84,302	66.7	91,715	43.6
Lam Tei Red Seasons	28,330	22.4	35,387	16.8
Tuen Mun Red Seasons	13,844	10.9	36,055	17.1
Shatin Red Seasons	–	–	27,434	13.1
Tsuen Wan Red Seasons	–	–	19,729	9.4
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>126,476</u>	<u>100.0</u>	<u>210,320</u>	<u>100.0</u>

In December 2010, Lam Tei Red Seasons, one of the Group's restaurants, was awarded by the Michelin Guide Hong Kong Macau 2011 the Michelin Bib Gourmand, the Michelin Guide distinction awarded to restaurants judged to be "wonderful restaurants with top-quality cuisine at highly affordable prices". The revenue of Lam Tei Red Seasons increased by approximately HK\$7.1 million or approximately 24.9% for the year ended 31 December 2010 as compared with that of the year ended 31 December 2009. In addition, the Group expanded the restaurant network with the addition of three restaurants since August 2009, among which, Shatin Red Seasons and Tsuen Wan Red Seasons, which opened in January 2010 and June 2010 respectively, contributed revenue of approximately HK\$47.2 million for the year ended 31 December 2010. Tuen Mun Red Seasons, which opened in August 2009, commenced full year operation in 2010 and contributed an increase of approximately HK\$22.2 million for the year ended 31 December 2010. The revenue derived from the brand of *Red Seasons Aroma Restaurant* (季季紅風味酒家) as a percentage of total revenue of the Group surged from approximately 33.3% for the year ended 31 December 2009 to approximately 56.4% for the year ended 31 December 2010.

Plentiful Delight Banquet Restaurant also benefited from the improvement of the general economic condition following the recent economic downturn. The revenue of Plentiful Delight Banquet Restaurant increased by approximately 8.8%, from approximately HK\$84.3 million for the year ended 31 December 2009 to approximately HK\$91.7 million for the year ended 31 December 2010.

COMPETITIVE STRENGTHS

The Directors believe that the following competitive strengths of the Group have contributed to its success and enabled it to compete effectively in the Chinese restaurant industry in Hong Kong.

Successful business strategy of providing quality food at competitive prices

The Directors believe that its adherence to delivering consistently high quality food at competitive prices is a key to success of the Group's restaurant business.

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Unlike some Chinese restaurant groups in Hong Kong that, as the Directors are aware, operate mass production of low-priced foods with which emphasis is placed on price rather than quality, the Group endeavours to provide quality food with a strong focus on using fresh and quality food ingredients and seasonings. As such, the Group selects food ingredients carefully, often based on origin, nutritional value, freshness and consumption safety. For example, the Group's signature roast suckling pig is produced from one specific type of suckling pigs from Guangxi, selected for its taste, size and texture. Mr. Wong KM, the chairman of the Company and an executive Director, is an accomplished restaurateur with over 29 years of operating experience in the food industry. Mr. Wong KM began his career in open food markets, where he acquired fundamental and practical knowledge of quality of food and fresh produce which helps to establish a solid foundation for a successful career in the restaurant industry. Having been deeply and actively involved in the sale, importing and handling of fresh meats throughout his early career, Mr. Wong KM has acquired an in-depth knowledge of fresh meat quality and is well-versed in the operations and mechanisms of meat supply. The Group maintains a list of reliable suppliers approved by its senior management for most food types and sources materials and food ingredients only from them. The freshness and quality of the raw materials and food ingredients provided by its suppliers are evaluated on a regular basis and the Group would cease to source from those suppliers who fail to provide quality food ingredients.

In addition to using fresh and quality ingredients, cooking techniques are just as important to the Group. The cooking technique used for each dish is chosen carefully and the Group's chefs set high standards for quality execution. In order to highlight qualities of food ingredients on top of flavour, aroma, colour and texture, the Group also endeavours to use cooking methods and recipes that maximise the nutritional value of food ingredients and allow dishes to be served at the most desired time and temperature. The Group is also keen on developing innovative and special Chinese cuisine utilising authentic and ancient recipes to attract customers and differentiate itself from competitors. Further, all the head chefs of the Group's restaurants have substantial experience in cooking and serving Chinese cuisine. They often pass on their experience in traditional cooking methods and recipes to junior chefs. Their solid experiences and expertises contribute to the success of the Group in providing high quality cuisine.

In deciding the price of each menu item, the Group takes into account the costs of raw materials and food ingredients, target profit margin, general market trends, spending patterns and purchasing power of customers and prices set by competitors. Given that the Group aims to maintain its positioning in the medium-end market, it strives to provide quality cuisine at competitive prices. Even in times of cost pressures, the Group is capable of adjusting the ingredients used, preparation method and time, preparation equipment and labour required with an aim to maintain the portion size and quality of food. For example, although the costs of raw materials and food ingredients from China increased dramatically at the end of 2010, the Group did not increase food prices to a large extent in order to maintain customer confidence in the Group in offering quality food at competitive and affordable prices. The Directors believe that such pricing policy helps to create an attractive price-value proposition typically favoured by customers.

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The receipt of the Michelin Bib Gourmand award by Lam Tei Red Seasons demonstrates the success of the Group in putting its business philosophy in practice. Each of the Group's restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家) is accredited as an EatSmart Restaurant (有「營」食肆) by the Department of Health since April 2011, recognising the restaurants' commitment to offering healthy dishes with high nutritional value. With such evident success, the Directors believe that this clear market positioning strategy enables the Group to develop its restaurant business in the long run.

High standard of quality control throughout all production processes

The Group places high emphasis on quality control in each food preparation process and the Directors consider that it remains the cornerstone of the Group's reputation and helps the Group to maintain customer confidence. Each of the Group's restaurants conducts food preparation in its own kitchen. Some Chinese restaurant groups in Hong Kong centralise food preparation functions of restaurants in different locations in one single food processing centre to lower overall production costs. However, centralisation of food preparation would produce time gaps between food processing and meal service time which can adversely affect the freshness and quality of dishes served to the customers, especially for dim sum and steamed dishes which are often consumed within minutes after being cooked for the best quality. Further, food processing centre operations are associated with a higher risk of outbreak of food-related problems as the entire restaurant chain uses the same food processing centre as a sourcing destination, which would also result in difficulties in food recalls. As it is the Group's business strategy to attract customers by offering fresh and quality food, each of the Group's restaurants conducts its own quality control and food preparation functions, including food ingredients procurement, preservation, preparation, processing and storage. With a decentralised food preparation process, the chefs and managers of the respective restaurants are able to closely monitor each step in the food preparation process, which helps to reduce the risk of outbreak of food-related problems and ensure timely delivery of freshly cooked food to customers.

Each restaurant has a food preparation division which focuses on kitchen operations. The food preparation division is led by the restaurant manager and is divided into different sections based on food types, including main course section, dim sum section and taste section. The main course section is led by the head chef and other sections are managed by their respective section chefs. The section chefs coordinate the work of small teams of chefs and assistants of each section. All the chefs and staff working in the kitchen are required to strictly adhere to the procedures and measures adopted by the senior management of the Group and, based on job duties, receive on-the-job training in relation to food ingredients preparation and preservation, flow of food production, hygiene conditions of the kitchen and quality control in different aspects of the operations of restaurants.

Sourcing capabilities supported by a strong profile of quality suppliers

The Directors believe that sourcing capabilities play an important role in the management of restaurant business, and one of the competencies essential to maximising sourcing capabilities is effective supplier selection. In this regard, the Group only places purchase orders for raw materials, including food ingredients and other restaurant supplies, with suppliers approved by senior management based on a set of selection criteria which includes the type and quality of ingredients, cost, reputation, service, agility, delivery efficiency and past performance. Such supplier selection criteria ensures that the Group can secure continual supply of ingredients of consistent quality, identify the source of supply promptly, maintain flexibility in stock levels and enjoy bulk purchase discounts. The Group has not entered into any long-term contract with its existing suppliers. As such, none of the Group's restaurants is contractually bound to make purchases from a specific supplier. This helps the Group in maintaining flexibility and agility in operations and pricing and thus enables the Group to adapt to changing market demand and economic circumstances. The Group has established and maintained long-term relationships with a number of its suppliers. Over 80% of the Group's major suppliers for the Track Record Period have been supplying raw materials to the Group for around 4 years. In addition, in order to ensure stable supply of food ingredients and minimise the risk of non-delivery, sub-standard products and supplier's default, the Group generally sources each kind of raw materials from more than one supplier. As the Group places high emphasis on the quality of its raw materials, it sources raw materials from suppliers across various cities in China.

The practice of central procurement has also contributed to enhancing the Group's sourcing capabilities. The Group purchases certain selected raw materials in bulk and centralises all such purchases to achieve economies of scale. Bulk purchase enables the Group to negotiate bulk purchase discounts, which lowers the Group's costs of production and assists the Group in offering food at competitive prices. Centralisation of purchases simplifies work procedures, minimises the labour required to perform the task, and maximises the efficiency of the food preparation process. This strategy assists the Group in controlling the quality and consistency of its production and inventory levels by having provided it with ready access to a stable supply of price competitive food ingredients and allows the Group to widen its range of product offerings by enabling it to try new dishes with different ingredients.

During the Track Record Period, the Group operated two warehouses, one in Tuen Mun and the other in Yuen Long, to stock its restaurant supplies and other raw materials. Due to certain tenancy problems, the Group would cease its operations at the warehouse in Tuen Mun upon the expiry of the relevant tenancy agreement in June 2011. The Group's operations at the warehouse in Yuen Long ceased upon early termination of the relevant tenancy agreement on 7 March 2011. For details of these tenancy problems, please refer to the paragraph headed "Property" in this section. The Group started to procure storage services to stock selected raw materials sourced under its central procurement policy in January 2011. These items are delivered and stored before distribution to individual restaurants of the Group. The central warehouse facilities help to improve the storage, logistics and inventory management of the Group and reduce overall costs of operation.

Specialty dishes which are not common in Hong Kong

There are numerous restaurants in Hong Kong offering Chinese cuisine and the competition in this industry is keen. In light of this, the Group strives to differentiate its restaurants from others by providing specialty dishes which are uncommon in Hong Kong, including ancient Chinese cuisine and innovative dishes based on traditional Chinese recipes.

In providing ancient Chinese cuisine, the Group serves dishes cooked in traditional charcoal stoves in Lam Tei Red Seasons, being one of the very few restaurants in Hong Kong which still have its own traditional charcoal stoves. These dishes are cooked by the traditional charcoal cooking method, which is a slow-cooking method making use of the steady, balanced heat of charcoal stoves to preserve the moisture and flavours in the dishes while bringing out the unique flavour and aroma of charcoal fumes. The Group's signature roast suckling pigs are cooked by this method. Very few restaurants in Hong Kong own traditional charcoal stoves nowadays as the use of coal and release of fumes have become more highly regulated than in the past. The traditional charcoal cooking method is also considered to be more difficult to practise as compared with cooking with stove-lit fire because of the difficulty to control cooking heat. The Group also serves traditional walled village cuisine (圍村風味菜), which is known for the use of fresh produce and rich sauces.

In addition to ancient Chinese cuisine, Tuen Mun Red Seasons, Shatin Red Seasons and Tsuen Wan Red Seasons innovate new menu items based on traditional Chinese recipes, including roast suckling pigs stuffed with glutinous rice and dried prawns (蝦禾米乳香豬), fried lotus root cakes (香煎蓮藕餅) and pork ribs with plum sauce (冰淋醬烤骨). In particular, the roast suckling pig stuffed with glutinous rice and dried prawns (蝦禾米乳香豬), the signature dish of the restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家), has received many favourable reviews in the local media and is recommended by the Michelin Guide Hong Kong Macau 2011. Notwithstanding the outbreak of Swine Influenza in or around 2009 and that certain of the Group's signature dishes have used pork as one of the major ingredients, the Directors note that the business operations and financial results of the Group were in material terms unaffected as a result of such outbreak or the outbreak of other pork related diseases.

The Group would update the menu of its restaurants to introduce new and uncommon items. It also makes variations to its dishes and food prices according to seasons and trends, conforming to modern dietetics. The Directors believe that the Group's ability to preserve traditional Chinese cooking and recipes and to regularly introduce creative dishes will help to generate more customer traffic, attract a broader customer base and enhance its operating results.

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Reliable and professional services to customers

The Directors believe that the Group's reliable and professional services to its customers contribute to the establishment of its loyal patronage.

The Group provides high quality dining environment to its customers. Plentiful Delight Banquet Restaurant has spacious dining rooms, well-planned layout of furniture, wide range of well-coordinated tableware and well-finished fittings and décor to accommodate the needs of Chinese wedding banquets and dining services for large-scale events. The restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家) are all of a classic Chinese restaurants setting with richly coloured decorations using red as a theme colour. In addition, all restaurant staff are required to be professionally uniformed during all working hours. The Group provides training and guidelines to its staff on service-related areas such as food handling and personal hygiene to enhance the quality of services provided to the customers. All front-line service staff are trained to be courteous, competent and responsive and to provide cordial hospitality to customers. Managers of each of the Group's restaurants hold daily briefing sessions with all front-line service staff on the daily operations of restaurants. In these briefing sessions, the managers would review staff performance and reflect customers' feedbacks. Such daily performance reviews assist the front-line service staff in maintaining and improving service levels.

The Group strives to promote customer satisfaction through responding to their comments and feedbacks. All front-line service staff are required to treat every request, enquiry or complaint by customers promptly and seriously. In case of any customer complaint in relation to food or quality of services, the restaurant managers would take initiatives to investigate and resolve the matter and attend to the customers promptly. The Directors believe that maintaining good customer satisfaction can assist the Group in strengthening its price-value proposition and building its brand and reputation.

To evaluate the quality of food and services objectively, the Group appointed Tiptop Consultants Ltd., a long-established and professional management consulting company serving organisations and individuals in Hong Kong and Asia Pacific, to carry out mystery customer visits and provide staff training for Plentiful Delight Banquet Restaurant in 2007. Such initiatives have been conducted from time to time since then. The findings of the mystery customer visits include but not limited to suggestion on the attentiveness of customer services, respond to customer request and food knowledge of front-line staffs. Based on the results and comments after the visits, the Group's senior management has issued guidelines and provided suggestions to each of the Group's restaurants to enhance food quality and customer service. The Group has engaged other services of Tiptop Consultants Ltd. for its other restaurants for assistance in and advice on staff training, improving customer service, enhancing food knowledge, maximising management efficiency, promoting unique concept and style and strengthening value-added service of the management and staff of the Group from 2011. The Directors believe that the consultancy services provided by an experienced and professional management consulting company would help to enhance the quality and efficiency levels in the procedures, services and human resources of the Group.

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Strong and experienced senior management team

The Group has a strong and experienced management team with extensive experience in and knowledge of the local restaurant industry and restaurant management. The Group was founded in 2006 by Mr. Wong KM, the chairman of the Company and an executive Director, who continues to lead the Group's management team. Mr. Wong KM is an accomplished restaurateur with over 29 years of operating experience in the food industry. Mr. Wong KM began his career in open markets, where he acquired fundamental and practical knowledge of quality of food and fresh produce which helps to establish a solid foundation for a successful career in the restaurant industry. Having been deeply and actively involved in the sale, importing and handling of fresh meat throughout his early career, Mr. Wong KM has acquired an in-depth knowledge of fresh meat quality and is well-versed in the operations and mechanisms of meat supply. Ms. Lau LY, the chief executive officer of the Company and an executive Director, has over 13 years of experience in the food industry and Mr. Li WH, the restaurant manager of Plentiful Delight Banquet Restaurant, has over 25 years of experience in the Chinese restaurant industry. Both of them have served the Group since its establishment. Other senior management members also have ample management and operational experiences in their respective fields. The Group's senior management team has acquired sound knowledge and in-depth understanding of Chinese cuisine, including different food types and food ingredients, cooking methods and techniques, and traditional Chinese recipes. This also gives the Group a distinct competitive edge over its competitors as the senior management team is able to effectively maintain and enhance the Group's goodwill and reputation with a particular emphasis on quality control. For detailed information about the industry experience of the Group's senior management, please refer to the section headed "Directors, Senior Management and Staff" in this prospectus.

With such broad restaurant industry and management experience, the Directors believe that the Group's senior management team is competent to lead the Group's operations in a professional manner with a view to maximising profits. The Directors believe that the cumulative experience of the management team will continue to attract new customers and retain existing customers.

Well-executed restaurant network expansion strategy

The Group's senior management team has successfully executed the Group's restaurant network expansion through well-planned and stringent site selection criteria, which helps the Group to capture its target customers with different preferences, spending patterns and needs.

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Site selection is a critical consideration in the Group's restaurant network expansion strategy. An optimal site should be visible, accessible, convenient and attractive to the target customers. The Group would consider comprehensive data and relevant location requirements in selecting an optimal site. All of the Group's restaurants are located either on busy roads or in shopping arcades to ensure a continuous and steady flow of potential customers. Plentiful Delight Banquet Restaurant has a total saleable area of approximately 1,712 sq.m and has a maximum seating capacity of 100 12-seat banquet tables enabling it to serve up to 1,200 guests on a single occasion. It has nearby public transportation and parking facilities. The Directors believe that these factors would make it a preferred dining venue of its target customers. The restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家) are currently located in Hong Kong's first generation new towns in the New Territories which are filled with commercial and residential establishments and populated with middle-income households.

The Directors believe that a well-executed restaurant expansion strategy helps to diversify the Group's restaurant portfolio and enables the Group to capture its target customers by providing food and services according to their preferences, spending patterns and needs.

BUSINESS AND RESTAURANTS

The Group's business can be classified into two major service categories:

- serving Chinese cuisine including Cantonese dim sum and main courses, fresh seafood delicacies and specialty Chinese cuisine such as roast suckling pigs, dishes cooked with charcoal stoves and traditional walled village cuisine (圍村風味菜)
- providing Chinese wedding banquet and dining services for large-scale events

As at the Latest Practicable Date, the Group operated five restaurants in Hong Kong under two brands, namely *Red Seasons Aroma Restaurant* (季季紅風味酒家) and *Plentiful Delight Banquet* (喜尚嘉喜宴會廳), to carry out the Group's business. Each brand targets different markets and features a distinctive brand image.

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The following table sets forth the general information of each of the Group's restaurants as at the Latest Practicable Date:

Name of restaurant	Brand	Location	Featured services/cuisine	Date of commencement of operation	Approximate total saleable area (sq.m.)	Approximate seating capacity (seats)	Number of employees	2009		2010	
								Approximate number of customer visit	Number of operation days	Approximate number of customer visit	Number of operation days
1. Plentiful Delight Banquet Restaurant	Plentiful Delight Banquet (喜尚嘉宴會廳)	1st Floor, Ho Shun Tai Building, No. 10 Sai Ching Street, Yuen Long, New Territories, Hong Kong	Provision of Chinese wedding banquet and dining services for large-scale events	8 February 2007	1,712	1,200	182	811,000	365 (Note 1)	766,000	365 (Note 1)
2. Lam Tei Red Seasons	Red Seasons Aroma Restaurant (季紅風味酒家)	Lam Tei Main Street, Lam Tei, Tuen Mun, New Territories, Hong Kong	Provision of specialty cuisine such as roast suckling pigs cooked with charcoal stoves and other dishes (Note 3)	25 October 2006	595.60	384	80	N/A	364 (Note 2)	N/A	365 (Note 2)
3. Tuen Mun Red Seasons	Red Seasons Aroma Restaurant (季紅風味酒家)	Shop Nos. 6 and 4H (also known as Shop Nos. 6, 8S1, 8T1, 8U1 and 11 or known as Restaurant 7), Level 3, Waldorf Garden, No. 1 Tuen Lee Street, Tuen Mun, New Territories, Hong Kong	Provision of Cantonese dim sum, main courses and seasonal Chinese cuisine (Note 3)	28 August 2009	790.78	400	93	301,000	126	913,000	365

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Name of restaurant	Brand	Location	Featured services/cuisine	Date of commencement of operation	Approximate total saleable area (sq.m.)	Approximate seating capacity (seats)	Number of employees	2009		2010	
								Approximate number of customer visit operation days	Approximate number of customer visit operation days	Approximate number of customer visit operation days	Approximate number of customer visit operation days
4. Shatin Red Seasons	Red Seasons Aroma Restaurant (季紅風味酒家)	Shop No. 33, Level 1 and Level 2, Garden Rivera, Nos. 20-30 Tai Chung Kit Road, Shatin, New Territories, Hong Kong	Provision of Cantonese dim sum, main courses and seasonal Chinese cuisine (Note 3)	28 January 2010	879.41	408	79	-	-	547,000	338
5. Tsuen Wan Red Seasons	Red Seasons Aroma Restaurant (季紅風味酒家)	1st Floor (together with adjacent flat roof) and 2nd Floor, Victory Court, No. 185 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong	Provision of Cantonese dim sum, main courses and seasonal Chinese cuisine (Note 3)	28 June 2010	1,009.48 (with a flat roof area of about 21.46 sq.m.)	504	99	-	-	458,000	187

Notes:

1. The relevant data may not be reflective of the actual performance of Plentiful Delight Banquet Restaurant as the numbers of customers of banquets and dining services for large-scale events were not captured by the system of the restaurant.
2. There is no data of number of customer visits for Lam Tei Red Seasons as the system installed in the restaurant did not capture the said data during the Track Record Period.
3. The business focus of the restaurant does not include wedding banquet although it can provide wedding banquet and other dining services to customers upon request, while no specific banquet facilities, event packages nor tailor-made services are available. Such services are thus not included in the featured services of the respective restaurant.

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Plentiful Delight Banquet Restaurant

Target customer

Plentiful Delight Banquet Restaurant targets customers in the middle-income group who require Chinese wedding banquet and dining services for large-scale events, such as festive gatherings, rites and ceremonies and other celebratory events. The restaurant is popular with some of the largest the local community groups in Hong Kong.

The table below sets forth the breakdown of the revenue of Plentiful Delight Banquet Restaurant by banquet and dining services for large-scale events and other dining services during the Track Record Period:

	Year ended 31 December			
	2009		2010	
	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>
Banquet and dining services				
for large-scale events	42,705	50.7	45,600	49.7
Other dining services	<u>41,597</u>	<u>49.3</u>	<u>46,115</u>	<u>50.3</u>
Total revenue	<u><u>84,302</u></u>	<u><u>100.0</u></u>	<u><u>91,715</u></u>	<u><u>100.0</u></u>

Location and dining environment

The restaurant is located in Yuen Long, which is the fourth largest district in Hong Kong with a large and growing population and an established railway system within the district. It has an area of approximately 138.43 km² and a population size of approximately 562,200 residents in 2010. Its transportation systems include West Rail and Light Rail of Mass Transit Railway and other major highways.

The restaurant has a total saleable area of approximately 1,712 sq.m and a maximum seating capacity of 100 12-seat banquet tables enabling it to serve up to 1,200 guests on a single occasion. It is located in the heart of Yuen Long with nearby public transportation and parking facilities. The Directors believe the restaurant is a preferred dining venue for families and hosts of Chinese wedding banquets or large-scale events because of its space and ease of accessibility.

BUSINESS

The design of the restaurant is carried out by a professional design firm with the input from the Group's senior management, in particular, that from Mr. Wong KM, the chairman of the Company and an executive Director. The restaurant's sizeable dining area is featured with a high ceiling and is professionally decorated with luxurious chandeliers, shiny tableware, adequate lighting and other settings commonly used in large-scale banquets to create a luminous and spacious environment suitable for festive occasions and celebratory events¹. Its dining tables are separated from each other with spacious legroom. The restaurant has installed eight large freshwater fish tanks at its entrance area, taking up most wall space in that area and stocking various species of fish in presentation to allow patrons to view and choose live seafood, providing a strong visual appeal and promoting the restaurant's seafood delicacies². It has also placed a 24-label wine cellar near the entrance area offering a wide selection of wines from different countries in the world which are especially popular among large parties. The restaurant is also equipped with audio and visual equipment for hosting Chinese wedding banquets and large-scale events. Parts of the restaurant can be converted into multi-purpose function rooms for banquets and parties in order to accommodate the different needs of the Group's patrons. The restaurant has two banquet halls for wedding ceremonies, one in Chinese style and the other in Western style, catering to the different needs of customers.



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For the years ended 31 December 2009 and 2010, the total amount associated with the upkeep and maintenance of Plentiful Delight Banquet Restaurant was approximately HK\$636,000 and HK\$507,000, respectively.

BUSINESS

Cuisine

The restaurant offers dim sum during breakfast and lunch hours throughout the year. It has a master menu serving various kinds of Chinese main courses, a seafood menu serving fresh seafood delicacies³ and a special menu serving specialty dishes such as *poon choi* (盆菜)⁴ and other promotional or seasonal dishes. In addition, the restaurant has special banquet menus which can be customised for customers requiring Chinese wedding banquet and dining services for large-scale events according to their preferences and budgets. The traditional walled village cuisine (圍村風味菜) served at the restaurant is popular due to the association with the presence of many walled villages in Yuen Long and the special customs kept by residents of walled villages in Yuen Long concerning the celebration of Chinese festivals.



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Turnover

The restaurant has a high level of customer turnover and is open for over 17 hours a day to serve a wide range of customers and provide all-day dining choices. It has a total of 182 employees and the front-line service staff generally works in 3 shifts. It accepts reservations for wedding banquets or other gatherings with a party size of 1,200 persons up to a year in advance.

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Restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家)

Target customer

The restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家), namely Lam Tei Red Seasons, Tuen Mun Red Seasons, Shatin Red Seasons and Tsuen Wan Red Seasons, target customers in the middle-income group with a preference for specialty Chinese cuisine and quality food at competitive prices.

In December 2010, Lam Tei Red Seasons, one of the Group's restaurants, was awarded by the Michelin Guide Hong Kong Macau 2011 the Michelin Bib Gourmand, the Michelin Guide distinction awarded to restaurants judged to be "wonderful restaurants with top-quality cuisine at highly affordable prices". Restaurants being awarded or recommended by the Michelin Guide have long been perceived as formal and expensive establishments which are not to be regularly frequented. With the Michelin Bib Gourmand award, the Group would expand its customer base to include budget-conscious patrons desiring to try restaurants on the Michelin Guide.

Location and dining environment

All the restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家) are currently located in Hong Kong's first generation new towns in the New Territories which are filled with commercial and residential establishments and populated with middle-income households. All of them are located either on busy roads or in shopping arcades to ensure a continuous and steady flow of potential customers.

The geographical data of the current locations of the restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家) are briefly described as follows.

Tsuen Wan

Tsuen Wan is a well-developed industrial and residential area in Hong Kong. It has an area of approximately 60.70 km² and a population size of approximately 295,400 in 2010. Its transportation systems include Tsuen Wan line and West Rail of Mass Transit Railway and other major highways.

Shatin

Shatin has the largest population in Hong Kong and is connected to the urban area with established road and railway networks. It is developing to be one of the major retail and consumer centres of Hong Kong. It has an area of approximately 69.46 km² and a population size of approximately 623,500 in 2010. Its transportation systems include East Rail and Ma On Shan Rail of Mass Transit Railway and four major tunnels.

BUSINESS

Tuen Mun

Tuen Mun is a newly developed residential district with a large and developing population and an established railway system within the district. It has an area of approximately 84.45 km² and a population size of approximately 499,000 in 2010. Its transportation systems include West Rail and Light Rail of Mass Transit Railway and major highways.

Lam Tei Red Seasons is located in a premises built more than 30 years from now and equipped with the installation of traditional charcoal stoves⁵. To promote and reinforce the brand image of a traditional Chinese restaurant serving ancient Chinese cuisine⁶ utilising traditional recipes and cooking techniques, the restaurant is decorated in a historical Chinese style⁷. The other three restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家), focusing on serving specialty Chinese cuisine, are all of a classic Chinese restaurant setting with richly coloured decorations using red as the theme colour⁸.



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The total amount associated with the upkeep and maintenance of restaurant was approximately HK\$420,000 and approximately HK\$290,000 and approximately HK\$125,000 and approximately HK\$200,000 for Lam Tei Red Seasons and Tuen Mun Red Seasons respectively for the years ended 31 December 2009 and 2010, and approximately HK\$266,000 and approximately HK\$46,000 for Shatin Red Seasons and Tsuen Wan Red Seasons respectively for the year ended 31 December 2010.



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Cuisine

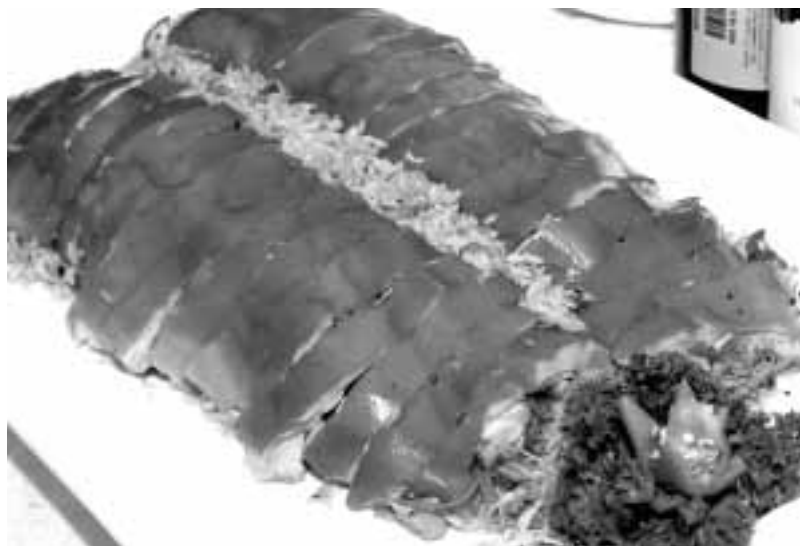
All restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家) offer dim sum during breakfast and lunch hours throughout the year. Each of them has a master menu serving various kinds of Chinese main dishes, a seafood menu serving fresh seafood delicacies and a special menu serving specialty cuisine such as roast suckling pigs, fried lotus root cakes (香煎蓮藕餅)⁹, pork ribs with plum sauce (冰淋醬烤骨)¹⁰ and traditional walled village cuisine (圍村風味菜). In addition, each restaurant under *Red Seasons Aroma Restaurant* (季季紅風味酒家) has a special banquet menu to accommodate small-scale wedding banquets and parties. The roast suckling pig stuffed with glutinous rice and dried prawns (蝦禾米乳香豬)¹¹ served at Lam Tei Red Seasons is popular due to its high quality and extensive media coverage generated by the good reviews in the local media, including the recommendation by the Michelin Guide Hong Kong Macau 2011.



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BUSINESS

Turnover

Each restaurant under *Red Seasons Aroma Restaurant* (季季紅風味酒家) has a high level of customer turnover and is open for over 16 hours a day to serve a wide range of customers and provide all-day dining choices. The restaurants have a total of 351 employees and the front-line service staff generally works in 3 shifts.

SALES AND MARKETING

Sales

The table below sets forth the breakdown of the Group's revenue in respect of each of its restaurants and as a percentage of its total revenue during the Track Record Period:

	For the year ended 31 December			
	2009		2010	
	HK\$'000	% of total	HK\$'000	% of total
Plentiful Delight Banquet				
Restaurant	84,302	66.7	91,715	43.6
Lam Tei Red Seasons	28,330	22.4	35,387	16.8
Tuen Mun Red Seasons	13,844	10.9	36,055	17.1
Shatin Red Seasons	–	–	27,434	13.1
Tsuen Wan Red Seasons	–	–	19,729	9.4
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>126,476</u>	<u>100.0</u>	<u>210,320</u>	<u>100.0</u>

Pricing Policy

In deciding the price of each menu item, the Group takes into account the costs of raw materials and food ingredients, target profit margin, general market trends, spending patterns and purchasing power of customers and prices set by competitors. Given that the Group aims to maintain its positioning in the medium-end market, it strives to provide quality cuisine at competitive prices. Even in times of cost pressures, the Group is capable of adjusting the ingredients used, preparation method and time, preparation equipment and labour required to prepare dishes with an aim to maintain the portion size and quality of food. For example, although the costs of raw materials and food ingredients from China increased dramatically at the end of 2010, the Group did not increase food prices to a large extent in order to enhance customer confidence in the Group in offering quality food at competitive and affordable prices. In light of the aforesaid, the cost of inventories consumed as a percentage of revenue remained consistent at 35.9% during the Track Record Period. The Directors believe that such pricing policy helps to create an attractive price-value proposition typically favoured by customers.

BUSINESS

Settlement

The vast majority of the Group's customers settle their dining bills by cash or credit cards. For patrons of the Group's dining services for wedding banquets or celebratory events, customers can also settle bills by cashier orders.

The table below sets forth the breakdown of the revenue by types of settlement during the Track Record Period:

	Year ended 31 December	
	2009	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cheque	15,224	27,250
Credit card	21,203	47,072
Cash and others	90,049	135,998
	<hr/>	<hr/>
Total	<u>126,476</u>	<u>210,320</u>

As most of the customers pay cash for settlement of bills, the Group's restaurants handle a significant amount of cash every day. To prevent any misappropriation of cash, the Group implements a cash management system with a set of cash handling and custody procedures that apply to all the Group's restaurants.

Orders placed by customers are all instantly recorded in an intranet system which is accessible by cashiers and various production units of the restaurants. All orders will only be processed by the various production units of the restaurants based on orders in the intranet system. Based on the information recorded in the intranet system, bills are issued to customers accordingly. In order to prevent misappropriation and illegal uses of cash, the Group implements specific procedures on cash custody, such as segregation of duties and daily reconciliation of the cash receipt with the cash sales record to make sure that the cash is correctly stated and reported on a daily basis. The responsible cash register operators reconcile the day's cash sales records generated by the intranet system with the actual cash and credit card receipts on a daily basis to ensure the record in the restaurant is accurate and complete and matches with the cash deposited, and another accounting staff is responsible for ensuring that the daily sales and expenses have been properly recorded and accounted for at the close of business each day. The daily records and cash are then collected by the treasurer of the respective restaurant. The Group also adopts a cash management and delivery system in each of the restaurants. The Group has engaged a security company to collect the cash at each restaurant and deliver it to the bank on a daily basis. The bank would inform the accounting department the total amount it receives. The accounting department keeps records of the cash delivered to the bank.

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Given that the bill amounts for wedding banquets and other large-scale events are significant and to enhance service levels, the Group accepts cashier orders as an alternative payment option. For corporate customers with established relationships with the Group, the Group may accept settlement of bills by cheques on condition that such cheques are made ready to the restaurant at least seven days before the dining services.

In respect of the bills settled by credit cards (each of which is subject to a maximum limit fixed by the Group, being HK\$10,000), the Group did not have any significant amount of receivables from credit card companies throughout the Track Record Period as it generally receives remittance from credit card companies on the business day after the day on which the credit card transaction is approved.

In order to avoid misappropriation of cash by the employees of the Group, the Group implements internal procedures to enhance the books and records system. Such measures include but not limited to the segregation of duties between the front-line service staff and cashier, pursuant to which the front-line service staff are responsible for placing food orders and arranging bill settlement by the customers, then the cashier will check and deposit the cash received from the customers. Any discrepancies of invoices with the ordering record or cancellation of invoices require the approval from the operation manager. The internal control policies of the Group include measures and procedures to prevent occurrence of fraud, theft, bribery, corruption and other misconduct involving employees, customers and other third parties, including for instance, illegitimate rebates from suppliers. For examples, it is provided in the staff manual and anti-fraud policy of the Group that employees are not allowed to accept any gifts from customers and suppliers of the Group without prior approval from the senior management of the Group. In the event that employees are skeptical on any inappropriate instances, they are encouraged to report to the senior management of the Group for further investigation.

The Group did not experience any cash embezzlement by employees during the Track Record Period and the Group has not encountered any of the aforementioned instances including for instance, illegitimate rebates from suppliers, during the Track Record Period. The Group considers its internal control policies and procedures to be adequate.

Marketing

As opposed to traditional paid advertising in mass media such as television and newspapers, the Group has adopted a different marketing strategy. Nowadays, many restaurant customers would, prior to selection, research on a restaurant's ratings posted by diners via internet, review comments from food critics in various media or consider word-of-mouth publicity. The Directors believe that traditional paid advertising can only generate limited exposure in the local restaurant industry. The internet, in particular, has become increasingly influential in establishing a restaurant's reputation as there is a recent trend that opinions on a restaurant could be formed by the ratings, recommendations and criticisms posted by diners or food critics on discussion forums, food blogs or food websites. Instead of incurring significant capital expenditures on traditional paid advertising, the Group devotes its resources to constantly improving quality levels in food and dining services offered at competitive prices, which the Directors believe it could result in positive comments from diners and food critics.

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The Directors consider that the recommendations and criticisms posted by diners or food critics on discussion forums, food blogs or food websites can deliver their comments on quality of the food and services of the Group to potential diners which the Directors believe to be generally perceived as more relevant and reliable than traditional paid advertising. The Directors also consider such marketing channel to be able to tap into a broader level of potential diners who are conscious about food and service quality of the restaurants. The Group's marketing strategy has proven to be effective with the receipt of the Michelin Bib Gourmand award by Lam Tei Red Seasons from the Michelin Guide Hong Kong Macau 2011 in December 2010, the receipt of the U Favorite Food Award (我最喜愛的廣東菜館) by the Group's restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家) in March 2011, the favourable comments on the Group's restaurants on well-known and popular local food magazines and websites, invitations to television and magazine interviews and the loyal patronage earned by the Group through word-of-mouth. The Directors consider that the implication of the marketing strategy can be demonstrated by the increase in revenue of the restaurants in the Group during the Track Record Period. The Group would continue to evaluate the effectiveness of the marketing strategy on the Group's business and performance by monitoring the number of customer visits in the restaurants of the Group, in particular, on the increased publicity and consumer awareness generated by the receipt of the Michelin Bib Gourmand.

In addition, the Group launched its www.gayety.com.hk and www.redseasons.com.hk websites in 2009 and 2010, respectively, to provide an electronic platform to promote its restaurants. It has kept the website updated constantly so that customers can continue to return to it. The Group regularly updates the menu of its restaurants to introduce new and uncommon dishes. It also makes variations to its dishes and food prices with the change of seasons and trends, conforming to modern dietetics. The Group posts eye-catching banners promoting popular dishes in its restaurants. Promotional pamphlets are distributed in the Group's restaurants to promote new, seasonal and discounted dishes. In order to promote brand awareness, the Group distributes free coupons to redeem roast suckling pigs on some occasions. The Group also participates in community events, with sponsorship and donation to charitable causes, which are embraced by the local media. For example, the Group cooperated with a charitable organisation in Hong Kong to organise annual free dinners for nearly 1200 elderly persons in the years 2008 to 2010. These events incidentally help to build up the image of the Group as a socially responsible organisation.

Going forward, the Group would adopt a marketing strategy that leverages the increased publicity and consumer awareness generated by the receipt of the Michelin Bib Gourmand. The Directors also believe that the corporate image of the Group would be enhanced when the Company obtains the listing status in Hong Kong upon the Listing.

For the years ended 31 December 2009 and 2010, the total marketing expenditure of the Group amounted to approximately HK\$122,000 and HK\$415,000, respectively. Due to the nature of the Group's business, the majority of its customers consist of walk-in customers. As such, the Directors consider that it is not practicable to identify the five largest customers of the Group.

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Brands management strategy

As at the Latest Practicable Date, the Group operated five restaurants under two brands, namely *Red Seasons Aroma Restaurant* (季季紅風味酒家) and *Plentiful Delight Banquet* (喜尚嘉喜宴會廳), to carry out the Group's business. The Group is in the process of establishing its sixth restaurant under *Red Royalty Banquet* (紅爵御宴) (i.e. Red Royalty Banquet Restaurant), which will become its third brand. The three brands of the Group has different target market positions which the Directors consider the differentiation can address the different needs of customers and enlarging its market share in the Chinese restaurant industry in Hong Kong which will further promote the Group's business. The market positions of the three brands of the Group are as follows:

- *Plentiful Delight Banquet Restaurant* targets customers in the middle-income group who require Chinese wedding banquet and dining services for large-scale events, such as festive gatherings, rites and ceremonies and other celebratory events;
- restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家) target customers in the middle-income group with a preference for specialty Chinese cuisine and quality food at competitive prices; and
- *Red Royalty Banquet* (紅爵御宴) targets customers looking for premium and deluxe Chinese wedding banquet and dining services.

In order to differentiate the market positions of the brands, the restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家) innovate new menu items based on traditional Chinese recipes and offer quality food at competitive and affordable prices, while *Plentiful Delight Banquet Restaurant* has been more focused in serving specialty banquet menus which can be customised for customers requiring Chinese wedding banquet and dining services for large-scale events according to their preferences and budgets. In addition, the Group also aims to differentiate the brands in terms of the interior design, the *Red Seasons Aroma Restaurant* (季季紅風味酒家) are decorated in a historical Chinese style with classic Chinese restaurant setting and richly coloured decorations using red as the theme colour to reinforce the brand image of a traditional Chinese restaurant serving ancient Chinese cuisine utilising traditional recipes and cooking techniques. Instead, *Plentiful Delight Banquet Restaurant* aims to create a luminous and spacious environment suitable for festive occasions and celebratory events using its sizeable dining area which features, among others, high ceiling, luxurious chandeliers, shiny tableware and adequate lighting. The Group will recruit a full time marketing manager after the Listing to formulate specific marketing strategy to reinforce brand awareness and differentiate the distinctive features which the three brands can offer to the target customers.

The Directors believe that this new branding strategy is relevant and meaningful in creating clarity in the Group's restaurant portfolio and capturing target customer segments. The establishment of *Red Royalty Banquet* (紅爵御宴) aims to expand the business of the Group into the provision of premium and deluxe Chinese wedding banquet and dining services. Although *Plentiful Delight Banquet Restaurant* and *Red Royalty Banquet Restaurant* will be located in close proximity and both of which will place a strong focus on providing Chinese wedding banquet and dining services, the Directors believe that the Group's business could be

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favourably impacted with the addition of the Red Royalty Banquet Restaurant, an upscale yet affordable Chinese restaurant, a restaurant type which is not included in the Group's current restaurant portfolio. Different from Plentiful Delight Banquet Restaurant, Red Royalty Banquet Restaurant will provide premium and deluxe Chinese wedding banquet and dining services in a formal, grand environment decorated by contemporary, stylish and high-priced items, targeting customers in the middle-income groups who require such services and need to impress in formal events and special occasions. It is currently expected that the scale of operation of Red Royalty Banquet Restaurant will be larger than any of the Group's existing restaurants, in terms of its gross floor area and services to be provided to the target customers.

RAW MATERIALS AND SUPPLIERS

The Group focuses on the quality of food ingredients and the food preparation process, including food ingredients procurement, preservation, preparation, processing and storage.

Raw materials

The major raw materials purchased by the Group are food ingredients, including but not limited to, vegetables, meat, seafood, dried food, frozen food, beverages and seasonings from China, Hong Kong, Brazil, Japan, Australia and South Africa. The Group centralises the procurement of certain selected food ingredients required by all the Group's restaurants, which allows the Group to achieve consistent quality, to obtain bulk purchase discount and ensures purchase prices remain at competitive levels. The Directors believe that the Group's suppliers would take into account the quality, demand, supply, specifications, duration of supply agreement, logistic arrangement, seasonal factor, source of supply and relationship with the Group when fixing the prices of their food ingredients. The Directors are of the view that the prices of the raw materials the Group obtained during the Track Record Period were consistent with prevailing market prices, and believe that the purchase prices of food ingredients will continue to follow market prices under normal operating and marketing conditions. Other key supplies required by the Group include kitchen and restaurant equipment and utensils.

Suppliers

The Directors believe that supplier selection plays an important role in the management of restaurant business and is one of the competencies essential to maximising sourcing capabilities. The Group has developed a well-thought out supplier selection system based on the Group's senior management's experience in the restaurant industry. For the supply of food ingredients, the Group's food control department, comprising 16 members with representatives from each of the Group's restaurants and headed by Mr. Wong KM, is responsible for selecting and liaising with potential suppliers. Food ingredient suppliers are chosen carefully based on a set of selection criteria which includes type and quality of ingredients, cost, reputation, service, agility, delivery efficiencies and past performance, and must be approved by the Group's senior management. As the Group places high emphasis on the quality of its raw materials, it sources raw materials from suppliers across various cities in China. The food control department maintains a list of approved food ingredient suppliers under which their

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details, including name, volume of supplies and prices, are recorded properly and updated regularly. The Group maintained a total of 48 approved suppliers as at the Latest Practicable Date. Orders for all food ingredients and seasonings are only placed with the Group's approved suppliers. The food control department conducts in-depth assessment on the quality of food ingredients and performance of the selected food ingredient suppliers regularly. The Group also has a list of food ingredient potential suppliers for contingency purposes. With such a supplier selection system, the Directors believe that the Group can secure continual supply of food ingredients of consistent quality, identify the source of supply promptly, maintain flexibility in stock levels and enjoy bulk purchase discounts. For the supply of ancillary equipment and utensils, the Group also only makes purchases from approved suppliers.

The Group has not entered into any long-term contract with its existing suppliers for food ingredients. This is consistent with industry practice as food ingredient suppliers generally do not enter into long-term supply contracts for a number of reasons. Due to fluctuations in the pricing of food, it is difficult for the parties to fix an agreed price. Further, many food ingredients can be readily sourced from most suppliers and it would reduce flexibility in operations and pricing if the restaurant is contractually bound to make purchases from a specific food ingredient supplier for a specific term. This arrangement also helps the Group in maintaining flexibility and agility in operations and pricing and enables it to adapt to changing market demand and economic circumstances. The Group has established and maintained long-term relationships with a number of its suppliers. Over 80% of the Group's major suppliers for the Track Record Period have been supplying raw materials to the Group for around 4 years. While the Group is confident that it has priorities in securing supplies from its key suppliers given the Group's long relationships with them, the Group's business with its suppliers has always been, and will aim to be, conducted on the basis of actual purchase orders placed by the Group from time to time. During the Track Record Period, none of the Group's key suppliers ceased or indicated that it would cease their supply to the Group, and the Group did not experience any material delay or interruption in securing the supply of food ingredients from its key suppliers. In view of this, the Directors believe that the Group will not experience any difficulty in securing the supply of food ingredients from its major suppliers. In addition, in order to ensure the stable supply of food ingredients and minimise the risk of non-delivery, sub-standard products and supplier's default, the Group generally sources each kind of food ingredients from more than one supplier.

For the years ended 31 December 2009 and 2010, the total purchases from the Group's five largest suppliers in aggregate accounted for approximately 36.0% and 38.1%, respectively, and its largest supplier accounted for approximately 10.3% and 9.8%, respectively, of its total purchases.

Save as the purchases from Wong Yuen Hing (which is owned as to 50% by Mr. Wong KM and 50% by Ms. Lau LY), none of the Directors, their respective associates or any Shareholder which to the knowledge of the Directors owns more than five per cent. of the issued share capital of the Company had any interest in any of the Group's five largest suppliers for the Track Record Period.

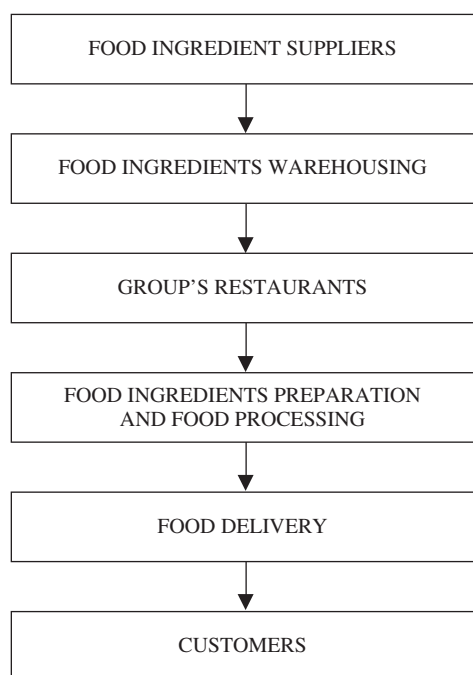
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Credit and payment terms

The Group's accounts department is responsible for processing all payments to suppliers. Payment would not be approved until both invoices from suppliers and delivery notes are signed and checked by the designated officers of the Group's restaurants and verified by the Group's accounts department. The accounts department will then arrange the settlement of invoices within the agreed credit periods. Payment terms granted by suppliers are mostly 45 days after the end of the month in which the relevant purchases are made. During the Track Record Period, most of the purchases from the Groups' suppliers were denominated and settled in HK dollars.

FOOD PREPARATION PROCESS

The diagram below illustrates the food preparation process of the Group:



Placement of purchase orders

The Group adopts the following order placement policies in relation to the following raw materials and supplies:

Food ingredients

The warehouse manager of each restaurant and the relevant department heads monitor the level of supplies regularly and decide the type and quantity of food ingredients to be purchased based on their industry experience. The warehouse manager then places orders directly with the Group's suppliers. The warehouse manager requires the weighing of a sample of the incoming food ingredients by a scale with a camera,

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which records the time of delivery and the type and quantity of the food ingredients, upon delivery of the food ingredients to the restaurants' warehouses. The central procurement department checks these records against invoices from time to time. The warehouse manager checks the information on the invoices against the orders before confirming receipt of the food ingredients. Invoices are delivered to the accounts department. All purchases are supported by invoices provided by the suppliers.

High value dried foods

In relation to high value dried foods such as abalones, shark fins and sea cucumbers, the Group adopts a more stringent order placement policy. Each restaurant manager provides the menus prepared for banquet bookings to the chef who is responsible for such high value dried foods to prepare for food ingredients. The head chef then confirms the amount of food ingredients needed and notifies the central procurement department to place order with the Group's suppliers. The manager of central procurement department, the warehouse manager and the restaurant manager together inspect and weigh the food ingredients upon receipt. The central procurement department acknowledges receipt after checking the details in the receipts (including descriptions and weight) against the orders and the invoices. The food ingredients are kept in a locked shelf in a locked, separate room in the restaurant's warehouse. Invoices are delivered to the accounts department.

Ancillary equipment and utensils

In relation to ancillary equipment and utensils, the manager of the central procurement department or the head of the department requiring procurement first checks with the Group's existing suppliers in respect of the price and the quality of goods. For any items that exceed HK\$10,000, at least two suppliers should be selected for comparison based on price and quality of goods, and orders should only be made after discussion with the Group's senior management. The manager of the central procurement department or the relevant department heads contact the selected suppliers to place orders. Goods are delivered by the suppliers to the relevant departments. The manager of the central procurement department signs and affixes the company chop on the invoice to acknowledge receipt of goods. Invoices are sent to the accounts department.

Storage and preservation

The warehouse manager of each restaurant is responsible for ensuring that food ingredients are stored properly. Non-perishable food ingredients and other ancillary equipment and utensils are kept in the restaurant's warehouse. High value dried foods, such as shark fins, abalones and sea cucumbers, are kept in a locked shelf in a locked, separate room in the restaurant's warehouse. Only the head chef responsible for high value dried foods has the keys to the locked, separate room, and only the warehouse manager has the keys to the locked shelf. Expensive wines are kept in wine cellars. Live fish and seafood are kept in freshwater tanks. All inventories of values above HK\$400,000 have been insured against theft and fire. The head chefs of their responsible section would check the state of all fresh and perishable goods to avoid using stale or expired food ingredients.

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Each restaurant of the Group has in place standardised preservation methods and recommended storage periods for different categories of foods, including unserved portions which will be used in production in the subsequent days. This practice promotes food quality, ensures food safety and prolongs the lifespan of food ingredients.

During the Track Record Period, the Group operated two warehouses, one in Tuen Mun and the other in Yuen Long, to stock its restaurant supplies and other raw materials. Due to certain tenancy problems, the Group would cease its operations at the warehouse in Tuen Mun upon the expiry of the relevant tenancy agreement in June 2011. The Group's operations at the warehouse in Yuen Long ceased upon early termination of the relevant tenancy agreement on 7 March 2011. For details of these tenancy problems, please refer to the paragraph headed "Property" in this section. The Group started to procure storage services from one of its suppliers, an Independent Third Party, to stock selected raw materials sourced under its central procurement policy in January 2011. The storage services are located at the warehouse of the relevant supplier in Yuen Long, Hong Kong. These items are delivered and stored before distribution to individual restaurants of the Group. The Group's staff are free to access the warehouse during normal business hours. The central warehouse facilities help to improve the storage, logistics and inventory management of the Group and reduce overall costs of operation. The storage services are charged on a monthly basis and the Group has not entered into any long-term contract with the relevant supplier. The Directors confirm that there has been no material adverse impact to the business operations of the Group as a result of such change.

Inventory control

The Group considers that the level of inventory will affect overall profitability. The Group has implemented an inventory control system based on food types, consumption levels and prices.

The Group keeps a minimal level of fresh and perishable food ingredients to reduce wastage, ensure freshness and quality of food and avoid excessive inventory level. For non-perishable food ingredients and other ancillary equipment and utensils, the Group maintains an adequate level based on operational needs. For high value inventories mainly purchased for consumption at wedding banquets or large-scale gatherings, such as wine, shark fins, abalones and sea cucumbers, purchase orders would be approved by senior management based on the level of advance booking.

The central procurement policy also helps to control inventory levels. Orders for certain selected raw materials required by all the Group's restaurants are centralised before placing with the approved suppliers. This enables the Group to achieve economies of scale. Bulk purchases allow the Group to obtain bulk purchase discounts, which lower the Group's cost of production and achieve economies of scale. It also ensures that purchase prices remain at competitive levels and allows the Group to secure continual supply of quality and fresh food ingredients and maintain flexibility in stock levels.

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Prices of food ingredients may fluctuate and bring an adverse impact on the costs of production. In order to minimise such impact, a higher volume of orders may be placed with suppliers for those food ingredients prices of which are anticipated to increase significantly. In such situations, the food ingredients under such orders are only provided to the Group's restaurants upon the recommendation of the manager of the central procurement department and the internal approval from top management during an agreed period to ensure freshness.

Food preparation

In order to ensure all dishes are freshly prepared, each of the Group's restaurants conducts its food preparation functions in its own kitchen. Each restaurant has one head chef, who is responsible for the overall operation of the kitchen of that restaurant. Each restaurant has a food preparation division which focuses on kitchen operations. The food preparation division is led by the restaurant manager and is divided into different sections based on food types, including main course section, dim sum section and taste section. The main course section is led by the head chef and other sections are managed by their respective section chefs. The section chefs coordinate the work of small teams of chefs and assistants of each section. The chefs and assistants of each section are responsible for different food preparation processes, including chopping, portioning, pan-frying, steaming and sauce making.

With respect to food preparation for wedding banquets and dining services for large-scale events, the head chef would be the key person for the overall planning of food preparation and allocation of work. Based on party size and the number and complexity of menu items, the head chef would allocate different work tasks to chefs and assistants by incorporating work simplification techniques, such as scheduling the preparation and meal service time of each menu items, arranging staff to use tools and equipment that improve productivity and use staff that are trained to handle multi-tasking on various tasks.

RESTAURANT MANAGEMENT

Management

The Group's management structure is divided into two levels: management level and restaurant level. Management level comprises the Group's senior management team, which is responsible for the development the long-term business strategies of the Group, evaluation of the implementation of business plans, oversight of quality control, staff management and new restaurant development. Restaurant level comprises individual management teams of each of the Group's restaurants, which are responsible for implementing the decisions of the senior management team, reporting operations to the senior management team on a regular basis and reflecting the needs and trends of customers to senior management team. The individual management team of each restaurant is headed by a restaurant manager who is familiar with the operations of the restaurant where he or she stations and experienced in the food and beverage industry. The restaurant manager is responsible for overseeing the operations of the two main divisions of each restaurant: the food preparation division and the sales and floor division. The food preparation division focuses on kitchen operations and is divided into

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different sections based on food types, including main course section, dim sum section and taste section. The main course section is led by the head chef and other sections are managed by their respective section chefs. The section chefs coordinate the work within the small teams of chefs and assistants of each section. The sales and floor division is mainly responsible for overseeing the operations relating to seafood, alcohol and beverages, sales and marketing and floor staff.

Staff hiring, training and monitoring

The Group's success in hiring, training and monitoring a large number of experienced employees is critical to its ability to provide reliable and professional services to its customers.

Each restaurant manager is responsible for the recruitment of its restaurant staff. The Group seeks to hire employees with relevant experience in the restaurant industry. The Group generally offers internal promotion opportunities and competitive compensation and benefits. Various fringe benefits are also provided to its employees, including free meals, discretionary bonus to promote work incentives. The Group provides on-the-job training to employees in relation to food ingredients preparation and preservation, flow of food production, hygiene conditions of the kitchen and quality control in different aspects of the operations of restaurants based on their job duties to improve their practical business skills and practices. It also distributes guidance materials and manuals on food handling, food and personal hygiene, food safety and quality control to ensure that its operations are run in a safe and proper manner.

To evaluate the quality of food and services objectively, the Group appointed Tiptop Consultants Ltd., a long-established and professional management consulting company serving organisations and individuals in Hong Kong and Asia Pacific, to carry out mystery customer visits and provide staff training for Plentiful Delight Banquet Restaurant in 2007. Such initiatives have been conducted from time to time since then. The findings of the mystery customer visits include but not limited to suggestion on the attentiveness of customer services, respond to customer request and food knowledge of front-line staffs. Based on the results and comments after the visits, the Group's senior management has issued guidelines and provided suggestions to each of the Group's restaurants to enhance food quality and customer service. The Group has engaged other services of Tiptop Consultants Ltd. for its other restaurants for assistance in and advice on staff training, improving customer service, enhancing food knowledge, maximising management efficiency, promoting unique concept and style and strengthening value-added service of the management and staff of the Group from 2011. The Directors believe that the consultancy services provided by an experienced and professional management consulting company would help to enhance the quality and efficiency levels in the procedures, services and human resources of the Group.

The Directors believe that the stability of a reliable and skilled workforce is critical to the success of its business and understand that the effectiveness and productivity of its staff are highly driven by tenure. It offers competitive remuneration packages to its staff with discretionary bonuses. For the years ended 31 December 2009 and 2010, the turnover rates of the Group's staff were 5.19% and 9.59%, respectively, calculated as the number of staff departed during the period divided by the number of staff departed during the period together with the total number of staff at the end of the period.

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RESTAURANT NETWORK EXPANSION

Site selection criteria

The Group's senior management team is responsible for expanding the Group's restaurant network through well-planned and stringent site selection criteria, which helps the Group to capture its target customers with different preferences, spending patterns and needs. Site selection is a critical consideration in the Group's restaurant network expansion strategy. An optimal site should be visible, accessible, convenient and attractive to the target customers. The Group would consider comprehensive data and relevant location requirements in selecting an optimal site. The senior management team maintains a restaurant opening manual setting out the Group's major site selection criteria in determining an optimal location before opening a new restaurant, which include:

- the flow and level of target customer traffic (e.g. the existence of favourable demographics of the area and accessibility to target customers)
- the flow and level of pedestrian traffic (e.g. proximity to present and planned transportation systems, private and public housing estates, shopping malls, supermarkets, education institutions and other commercial, business and residential establishments)
- initial capital outlay including cost of rental and other operating costs and expenses
- size, safety and any special appeal of the site
- projection on time and size of investment return
- the level of actual and potential competition
- the presence of other food and beverage operators to help the area to achieve a food-related reputation
- local landmarks and planned developments
- the existence of favourable factors tied with the Group's restaurant network expansion strategy (e.g. large floor areas are generally preferred for restaurants providing wedding banquets)

All of the Group's restaurants are strategically opened in optimal locations with heavy target customer traffic. For site information of the Group's restaurants, please refer to the paragraph headed "Business and restaurants" in this section.

Restaurant opening

After a potential site is identified, the Group's senior management would commence comprehensive due diligence procedures, including seeking opinions from the experienced restaurant managers and head chefs, consulting internal and engaging external professional on compliance with legal and regulatory requirements, engaging external legal advisers to advise on leasing matters studying the feasibility and effect of installing the desired equipment and renovations and assessing the total capital investment required and time and size of investment return.

Upon satisfactory results of due diligence, negotiations with the relevant landlord in securing the lease would commence. The Group would also appoint an independent professional licence consultant to provide assistance in handling issues in respect of the application of general restaurant licence. A professional interior design firm would be engaged to renovate the site based on the types of services offered, target customer groups and associated brand features with the input of the Group's senior management. For each new restaurant, the Group seeks to maximise efficiency in layout, functionality and usable space while taking into account safety requirements and the aesthetic aspects. The restaurant managers would be responsible for liaising with suppliers on sourcing restaurant kitchen equipment and utensils. New staff would be recruited and staff from existing restaurants of the Group would be seconded to the new restaurant to provide assistance in the initial stage. It generally takes two months for a restaurant to launch upon signing of the lease. The costs of opening a restaurant depends upon, among other things, rental costs, fees of professional firms, type of renovations and equipment required and timing of opening.

Red Royalty Banquet Restaurant

In early 2011, encouraged by the success of the restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家) and *Plentiful Delight Banquet* (喜尚嘉喜宴會廳) and the established reputation of the Group in providing Chinese wedding banquet and dining services for large-scale events, the Group has decided to take steps to further develop its business and diversify its restaurant portfolio by adopting a new branding strategy. The major step will include the opening of the Group's sixth restaurant in Yuen Long under *Red Royalty Banquet* (紅爵御宴) (i.e. Red Royalty Banquet Restaurant), which will become the third brand established by the Group, targeting customers looking for premium and deluxe Chinese wedding banquet and dining services.

For details of the rationale behind the Group's branding strategy and the establishment of the new restaurant, please refer to the sub-paragraph headed "Diversify service and product offerings with the implementation of a new branding strategy" of the paragraph headed "Business strategies" in the section headed "Future Plans and Use of Proceeds" in this prospectus.

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It is currently planned that Red Royalty Banquet Restaurant will be marketed as an upscale yet affordable Chinese restaurant providing premium and deluxe Chinese wedding banquet and dining services in a formal, grand environment decorated by contemporary, stylish and high-priced items, targeting customers in the middle-income groups who require such services and need to impress in formal events and special occasions. It is currently expected that the scale of operation of Red Royalty Banquet Restaurant will be larger than any of the Group's existing restaurants, in terms of total saleable area and the services to be provided to the targeted customers. Due diligence procedures have been carried out by the Group's senior management in identifying suitable premises for the restaurant. It is currently planned that Red Royalty Banquet Restaurant will be located in Yuen Long. The Group aims to identify premises with total floor area of approximately 2,118 sq.m. to accommodate seating capacity of approximately 120 tables (i.e. approximately 1,440 customers) and prepares to engage a professional design firm to manage the interior decoration of the restaurant. The Group currently plans to invest approximately HK\$24 million on Red Royalty Banquet Restaurant as capital expenditure. The Group plans to satisfy such capital expenditure by the proceeds from the Placing and the internal working capital of the Group. For details of the use of proceeds of the Group, please refer to the paragraph "Business Strategies" in the section headed "Future Plans and Use of Proceeds" in this prospectus. As at the Latest Practicable Date, the Group did not enter into a lease for Red Royalty Banquet Restaurant and incurred approximately HK\$454,000 of establishment costs for Red Royalty Banquet Restaurant which mainly consist of deposit payments for restaurant supplies and equipment.

Plentiful Delight Banquet Restaurant and Red Royalty Banquet Restaurant will be located in close proximity and both of which will place a strong focus on providing Chinese wedding banquet and dining services. For the rationale behind the Group's selection of the location of the Red Royalty Banquet Restaurant, please refer to the sub-paragraph headed "Diversify service and product offerings with the implementation of a new branding strategy" of the paragraph headed "Business strategies" in the section headed "Future Plans and Use of Proceeds" in this prospectus.

Internal control

In light of the non-compliance incident that the Group has encountered in the past (please refer to the sub-paragraph headed "Compliance" of the paragraph headed "Licences and approvals" in this section) and to ensure the Group's compliance with the relevant licensing requirements in the future, the Group will only open a new restaurant if all requirements under the applicable laws and regulations are complied with prior to its opening. The Group has also implemented a set of internal compliance guidelines in relation to the opening of restaurants covering the monitoring of application and maintenance of the licences, approvals, permits and registrations of our restaurants. The chairman and the respective restaurant manager of the Group are responsible for overseeing the implementation of guidelines to ensure that all the requisite requirements are complied with prior to the opening of any new restaurants. The Group would procure external consultants to prepare and submit the necessary documents to the relevant government authorities approximately two months prior to the expected opening date of the restaurant. The Company would then arrange for on-site visits of the government

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officials, among others, the FEHD, the Buildings Department and the Fire Services Department, to obtain the consents for issuing the general restaurant licences. The proposed restaurant manager of the new restaurant would make the relevant application to obtain the liquor licence three months prior to the expected opening date of the restaurant. The Directors considered that based on their past experience in obtaining the relevant licences, the time for application of the relevant licences would be sufficient. In any event, the Group will open a new restaurant only if all licences required are obtained.

In respect of the existing licences and approvals of the Group's restaurants, a summary table listing out the validity periods of each licence and approval would be maintained to ensure that all licences and approvals are valid and subsisting and that renewals of such licences are made in a timely manner. The relevant Directors and senior management personnel of the Group have also received training by the Company's Hong Kong legal advisers on the above licencing and approval requirements.

In addition, the Group has adopted the following internal control measures: (i) the Company has appointed its Hong Kong legal advisers to advise the Company on all applicable laws and regulations in Hong Kong after Listing; (ii) the Directors have undertaken to attend annual training on the laws and regulations related to the business operations of the Group, including the GEM Listing Rules and the Companies Ordinance, to be provided by the Company's Hong Kong legal advisers; (iii) the Company will appoint an independent internal control consultant within 3 months after Listing to review the Group's compliance with the applicable laws and regulations on an annual basis; (iv) the Company has adopted the measure that the company secretary of the Company will review the Group's compliance with the applicable laws and regulations on a quarterly basis; and (v) the Company has sought advice from the Company's Hong Kong legal advisers on a timely basis on matters including but not limited to, opening of new restaurants of the Group, renewal of existing licences and implementation on any laws and regulations related to the Group.

QUALITY CONTROL

The Group strives to provide high quality Chinese cuisine and professional services to its customers. The Group has a quality control system in place covering food production process, food and services provided to the customers and dining environments of all its restaurants, with a particular focus on food hygiene and safety and sanitation and cleanliness standards of restaurant premises. Food safety policies and procedures prepared in accordance with the standards required by the relevant government authorities have been established. The restaurant manager is responsible for reviewing the operations and performance of the restaurant to ensure that they are in compliance with the guidelines and policies.

Each restaurant manager is responsible for checking and monitoring the quality of food and services and the dining environments of the relevant restaurant. The restaurant manager directly reports to the senior management of the Group and would make suggestions on remedial actions if the Group's restaurant for which he is responsible has underperformed.

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To evaluate the quality of food and services objectively, the Group appointed Tiptop Consultants Ltd., a long-established and professional management consulting company serving organisations and individuals in Hong Kong and Asia Pacific, to carry out mystery customer visits and provide staff training for Plentiful Delight Banquet Restaurant in 2007. The Group has engaged other services of Tiptop Consultants Ltd. for its other restaurants from 2011.

The receipt of the Michelin Bib Gourmand award by Lam Tei Red Seasons demonstrates the success of the Group in putting its business philosophy in practice. Each of the Group's restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家) is accredited as an EatSmart Restaurant (有「營」食肆) by the Department of Health since April 2011, recognising the restaurants' commitment to offering healthy dishes with high nutritional value.

Save for a claim for injury by a customer due to alleged slippery floor in the restaurant of the Group which is still pending investigation by the insurance company, the Group did not receive any material complaints from customers and has not been subject to any investigations regarding the hygiene of its food by any government authorities (e.g. the FEHD) during the Track Record Period and up to the Latest Practicable Date. Staff briefings have been organised by the Group to reinforce the importance of (i) keeping the floor dry; and (ii) place a caution sign for slippery floor after mopping the floor. The Directors consider that the current precautionary measures in relation to slippery floor are sufficient.

Quality control on food production

The Group maintains strict quality control system and adopts high hygiene standards throughout the entire food production process, starting from the procurement of the food ingredients to food delivery to customers covering the following aspects:

Control on source of food ingredients and seasonings

The Group maintains a food control department which is responsible for monitoring the source of food ingredients and seasonings. The Group selects food ingredients carefully, often based on origin, nutritional value, freshness, chemical content and consumption safety. For example, the Group's signature roast suckling pig is produced from one specific type of suckling pigs from Guangxi, selected for its taste, size and texture. Mr. Wong KM, the chairman of the Company and an executive Director, is an accomplished restaurateur with over 29 years of experience in the food industry. Having been deeply and actively involved in the sales, importing and handling of fresh meat, Mr. Wong KM has acquired an in-depth knowledge of fresh meat quality. The Group maintains a list of reliable suppliers approved by its senior management for most food types and sources raw materials and food ingredients only from them. The freshness and quality of the raw materials and food ingredients provided by its suppliers are evaluated on a regular basis and the Group would cease to source from those suppliers who fail to provide quality food ingredients. Orders for all food ingredients and seasonings are only placed with the Group's approved suppliers. As the Group places high emphasis on the quality of its raw materials, it sources raw materials from suppliers across various cities in China.

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Furthermore, the Group purchases minimum level of fresh and perishable food ingredients for the Group's restaurants to reduce food wastage, ensure their freshness and quality and avoid excessive inventory levels.

Inspection of food ingredients and seasonings upon delivery

Different inspection procedures are adopted for different types of raw materials sourced by the Group. For the delivery of the food ingredients, the warehouse manager requires the weighing of a sample of the incoming food ingredients by a scale with a camera, which records the time of delivery and type and quantity of the food ingredients. The central procurement department checks these records against invoices from time to time. The warehouse manager checks the information on the invoices against the orders before confirming receipt of the food ingredients. For high value dried foods, the manager of the central procurement department, the warehouse manager and the restaurant manager together inspect and weigh the food ingredients upon receipt. The central procurement department acknowledges receipt after checking the details in the receipts (including descriptions and weight) against the orders and the invoices. For ancillary equipment and utensils, the manager of the central procurement department signs and affixes the company chop on the invoices to acknowledge receipts of goods. All these procedures are carried out before invoices are sent to the accounts department.

Use of cooking methods and techniques

The Group endeavours to provide quality food that bring out the flavour from quality food ingredients and seasonings. In addition to using fresh and quality ingredients, cooking techniques are just as important to the Group. Each technique for each dish is chosen carefully. In order to highlight qualities of food ingredients on top of flavour, aroma, colour and texture, the Group also uses cooking methods and recipes that maximise the nutritional value of food ingredients and allow dishes to be served at the most desired time and temperature. Each of the Group's restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家) is accredited as an EatSmart Restaurant (有「營」食肆), recognising the restaurants' commitment to offering healthy dishes with high nutritional value.

In addition, the head chefs and section chefs would provide guidance to other chefs and assistants on preparing foods in accordance with established standards, including conforming to the specifications reflected in photographs of menu items, maintaining the desirable characteristics of a given standard, preparing consistent and appropriate serving sizes and developing cooking methods to reduce food waste.

Storage of food ingredients

All food ingredients once delivered to the restaurants are stored in respective designated areas in the kitchen and refrigerating facilities as some of them are perishable in nature. To avoid contamination, all food ingredients are required to be kept in areas with appropriate temperature and humidity, depending on their nature.

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Hygiene and safety

To ensure the hygiene condition of the food ingredients, the restaurant chefs check the fresh food ingredients on a daily basis and other food ingredients and seasonings, in particular, the frozen food stored in the refrigerating facilities on a regular basis.

All kitchen areas and equipment and utensils used are required to be disinfected and cleaned up at the end of each business day. All kitchen staff are required to keep the kitchen floors free of obstacles that may result in falls or injuries and dry to avoid the growth of bacteria. Food waste and expired dishes are required to be properly discarded.

In addition, the Group has developed a set of procedures on inspection of kitchen areas and equipment. A weekly inspection of the kitchen areas is carried out to check that different parts of the kitchen areas, including stoves, basin, utensils, floors, ceiling and ventilating system, are up to the hygiene standard. The restaurant manager is responsible for ensuring compliance of these procedures on a weekly basis and makes recommendations to the Group's senior management in this aspect.

All refrigerating facilities of the Group's restaurants are required to be cleaned on a regular basis for ensuring their cleanliness and high hygiene standard as required by the Group. Further, all refrigerating facilities are maintained and checked on a yearly basis for ensuring that they operate effectively and efficiently.

Training to staff

The Group provides on-the-job training to employees in relation to food ingredients preparation and preservation, flow of food production, hygiene conditions of the kitchen and quality control in different aspects of the operations of restaurants based on their job duties to improve their practical skills and practices. The Group also distributes guidance materials and manuals on food handling, food and personal hygiene, food safety and quality control to ensure that its operations are run in a safe and proper manner.

For details of staff training provided by external consultancy firms, please refer to the sub-paragraph headed "Staff hiring, training and monitoring" of the paragraph headed "Restaurant management" in this section.

Quality control on customer service

The Group provides training and guidelines to its staff on service-related areas such as food handling and personal hygiene to enhance the quality of services provided to the customers. All front-line service staff are trained to be courteous, competent and responsive and to provide cordial hospitality to customers. The restaurant staff are required to be professionally uniformed during all working hours. Managers of each of the Group's restaurants hold daily briefing sessions with all front-line service staffs on the daily operations of restaurants. In these briefing sessions, the managers would review staff performance and

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reflect the customers' feedbacks. Such daily performance reviews assist the front-line service staff in maintaining and improving service levels. The Group strives to promote customer satisfaction through responding to their comments and feedbacks. All front-line service staff are required to treat every request, enquiry or complaint by customers promptly and seriously. In case of any customer complaint in relation to food or quality of services, the restaurant managers would take initiatives to investigate and resolve the matter and attend to the customers promptly. The Directors believe that maintaining good customer satisfaction can assist the Group in strengthening its price-value proposition and building its brand and reputation.

To evaluate quality of food and services objectively, the Group appointed Tiptop Consultants Ltd., a long-established and professional management consulting company serving organisations and individuals in Hong Kong and Asia Pacific, to carry out mystery customer visits and provide staff training for Plentiful Delight Banquet Restaurant in 2007. Such initiatives have been conducted from time to time. The findings of the mystery customer visits include but not limited to suggestion on the attentiveness of customer services, respond to customer request and food knowledge of front-line staffs. Based on the results and comments after the visits, the Group's senior management has issued guidelines and provided suggestions to each of the Group's restaurants to enhance food quality and customer service. The Group has engaged other services of Tiptop Consultants Ltd. for its other restaurants for assistance in and advice on staff training, improving customer service, enhancing food knowledge, maximising management efficiency, promoting unique concept and style and strengthening value-added service of the management and staff of the Group from 2011. The Directors believe that the consultancy services provided by an experienced and professional management consulting company would help to enhance the quality and efficiency levels in the procedures, services and human resources of the Group.

Quality control on dining environments and kitchen areas

The Group is committed to providing comfortable dining environments and maintaining the high hygiene standard of the kitchen areas. The Group has engaged a professional carpet cleaning company to perform carpet cleaning twice a month for all its restaurants while an aquarium management company is engaged to perform weekly maintenance and cleaning work for the aquariums of all its restaurants. The mystery customer visits carried out by the Tiptop Consultants Ltd. would also give ratings and recommendations to the overall dining environment of the restaurants. Further, the restaurant manager will monitor the dining environment on a daily basis and provide immediate feedback to the floor staff.

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AWARDS AND CERTIFICATIONS

The following table sets out the various awards and certifications obtained by the Group during the Track Record Period:

Year of Grant	Company/ restaurant awarded	Awards/Certification	Awarding body	Validity Period
2011	The Group's restaurants under <i>Red Seasons Aroma Restaurant</i> (季季紅風味酒家)	U Favorite Food Award (我最喜愛的廣東菜館)	U Magazine	Not applicable
2011	The Group's restaurants under <i>Red Seasons Aroma Restaurant</i> (季季紅風味酒家)	EatSmart Restaurant (有「營」食肆)	Department of Health	14 April 2011 – 31 December 2011
2010	Lam Tei Red Seasons	Michelin Bib Gourmand	Michelin Guide Hong Kong Macau 2011	Not applicable
2009	Plentiful Delight Banquet Restaurant	Caring company	The Hong Kong Council of Social Service	10 February 2009 – 31 December 2009

LICENCES AND APPROVALS

Regulatory regime

In order to operate the Group's restaurants in Hong Kong, the following three types of licences are required to be obtained and maintained:

- (a) a general restaurant licence granted by the DFEH of the FEHD;
- (b) a water pollution control licence granted by the DEP of the EPD; and
- (c) a liquor licence granted by the LLB.

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General restaurant licence

In Hong Kong, any person carrying on restaurant business is required to obtain a general restaurant licence granted by the DFEH under the Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong) and FBR before commencing the restaurant business. It is provided under section 31(1) of the FBR that no person shall carry on or cause, permit or suffer to be carried on any restaurant except with a general restaurant licence. Generally, the general restaurant licence will be granted subject to fulfilment of various pre-requisites in relation to the premises at which where the restaurant is proposed to be operated relating to health, ventilation, hygiene, structural features, building safety and means of escape. Applications for general restaurant licences may be referred by the FEHD to the Buildings Department and Fire Services Department for advice on the building and fire safety aspects respectively. The DFEH may grant provisional restaurant licences to new applicants who have fulfilled the basic requirements in accordance with the FBR pending completion of all outstanding requirements for the issue of a full restaurant licence.

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

Water pollution control licence

In Hong Kong, discharges of trade effluents into specific water control zones are subject to control and the discharger is required to obtain a water pollution control licence granted by the DEP under the WPCO before commencing the discharge. Under sections 8(1) and 8(2) of the WPCO, a person who discharges (i) any waste or polluting matter into waters of Hong Kong in a water control zone; or (ii) any matter into any inland waters in a water control zone which tends (either directly or in combination with other matter which has entered those waters) to impede the proper flow of the water in a manner leading or likely to lead to substantial aggravation of pollution, commits an offence and where any such matter is discharged from any premises, the occupier of the premises also commits an offence. Under sections 9(1) and 9(2) of the WPCO, a person who discharges any matter into a communal sewer or communal drain in a water control zone commits an offence and where any such matter is discharged into a communal sewer or communal drain in a water control zone from any premises, the occupier of the premises also commits an offence. Under section 12(1)(b) of the WPCO, a person does not commit an offence under section 8(1), 8(2), 9(1) or 9(2) of the WPCO if the discharge or deposit in question is made under, and in accordance with, a water pollution control licence. Generally, such licence will be granted with terms and conditions specifying requirements relevant to the discharge, such as the discharge location, provision of wastewater treatment facilities, maximum allowable quantity, effluent standards, self-monitoring requirements and keeping records.

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A water pollution control licence may be granted for a period of not less than two years and generally five years, subject to payment of the prescribed licence fee and continuous compliance with the requirements under the relevant legislation and regulations. A water pollution control licence is renewable.

Liquor licence

Any person who intends to operate a business which involves the sale of liquor for consumption at any premises must obtain a liquor licence from the LLB under the DCR before commencement of such business. It is provided under section 17(3B) of the DCO that where regulations prohibit the sale or supply of any liquor except with a liquor licence, no person shall sell, or advertise or expose for sale, or supply, or possess for sale or supply, liquor except with a liquor licence. Regulation 25A of the DCR prohibits the sale of liquor at any premises for consumption on those premises or at a place of public entertainment or a public occasion for consumption at the place or occasion except with a liquor licence. Such licence is applied by and granted to an individual. A liquor licence will only be issued when the relevant premises have also been issued with a full or provisional restaurant licence. A liquor licence will only be valid if the relevant premises remain licensed as a restaurant. All applications for liquor licences are referred to the Commissioner of Police and the District Officer concerned for comments.

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

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Compliance

The table below sets out details of the general restaurant licences, water pollution control licences and liquor licences, in respect of each of the Group's restaurants:

Name of the restaurant	Operating company	Address of the restaurant as shown in the general restaurant licence	General restaurant licence			Liquor licence			Water pollution control licence		
			Holder	Licence number	Validity Period of the current licence	Holder (Note 1)	Licence number	Validity Period of the current licence	Holder	Licence number	Validity Period of the current licence
Plentiful Delight Banquet Restaurant	Gayety	G/F (Portions) and 1/F, Ho Shun Tai Building, 10 Sai Ching Street, Yuen Long, New Territories	Gayety (Note 2)	2294800876	6 September 2010 to 5 September 2011	Chung Chau Wah	5294800183 (Note 3)	6 February 2011 to 5 February 2012	Gayety	WT00009072-2011 (Note 3)	18 May 2011 to 31 May 2016
Lam Tei Red Seasons	Tin Ho (Note 4)	G/F, & 1/F, 1 Main Street, Lam Tei, Tuen Mun, New Territories	Tin Ho	2293000035	1 July 2010 to 30 June 2011 (renewed for 1 July 2011 to 30 June 2012)	Chan Mau Kam	5293000421	1 April 2011 to 31 March 2012	Tin Ho	WT00008665-2011 (Note 7)	4 March 2011 to 31 March 2016
Tuen Mun Red Seasons	Red Seasons	Level 1 (Portion) and Shop Nos. 6, 8S1, 8T1, 8U1 & 11, Level 3, Waldorf Garden, 1 Tuen Lee Street, Tuen Mun, New Territories	Red Seasons	2293800754	26 August 2010 to 25 August 2011	Chan Yuen Pui	5293820027 (Note 5)	26 January 2011 to 25 January 2012	Red Seasons	WT00008177-2011	5 January 2011 to 31 January 2016
Shatin Red Seasons	RS Corporation	Shop No 33, G/F & Level 2, Garden Rivera, STTL 202, Sha Tin, New Territories	RS Corporation	2297000431	1 July 2010 to 30 June 2011 (renewed for 1 July 2011 to 30 June 2012)	Chan Lin So Alan	5297800713	18 November 2010 to 17 November 2011	RS Corporation	WT00008092-2010	9 May 2011 to 31 May 2016
Tsuen Wan Red Seasons	RS Catering	G/F (Portion), 1/F-2/F, Victory Court, 185 Castle Peak Road, Tsuen Wan, New Territories	RS Catering	2292802762	21 March 2011 to 20 March 2012	Lee Chi Ting	5292820206 (Note 6)	22 March 2011 to 26 July 2011	RS Catering	WT00008435-2011 (Note 6)	17 June 2011 to 30 June 2016

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Notes:

- (1) As at the Latest Practicable Date, all such holders were employees of the Group.
- (2) Application was made to the FEHD for the transfer of general restaurant licence from Jubilant to Gayety on 25 November 2010 and the FEHD approved such transfer on 29 March 2011.
- (3) General restaurant licence covers “G/F (Portions)” and “1/F” of Ho Shun Tai Building but “G/F (Portions)” is not covered by the business registration certificate of Gayety, the liquor licence nor the water pollution control licence. The Directors have explained that “G/F (Portions)” covers a staircase with no actual business operation and such area does not involve the serving of any liquor. Thus, a liquor licence was not obtained in respect of “G/F (Portions)”. Given that (i) the FEHD must be aware of the address as shown in the business registration certificate of Gayety in granting the general restaurant licence of Plentiful Delight Banquet Restaurant; (ii) the FEHD, the Buildings Department and the Fire Services Department must have conducted site inspections of the premises of Plentiful Delight Banquet Restaurant prior to the grant of its general restaurant licence; (iii) there is no legal requirement that the addresses as shown in business registration certificate, the liquor licence and the water pollution control licence of a restaurant must exactly match with that as shown in the general restaurant licence; and (iv) the Liquor Licensing Office must be aware that the address as shown in the business registration certificate of Gayety did not exactly match with that as shown in the general restaurant licence of Plentiful Delight Banquet Restaurant, the Company’s Hong Kong legal advisers are of the opinion that the discrepancies in the addresses as shown in the business registration certificate, general restaurant licence, liquor licence and water pollution control licence, respectively, do not amount to non-compliance of any applicable Hong Kong law and regulation. As at the Latest Practicable Date, the Group had not received any notice regarding any action that may be taken or fines that may be imposed by the relevant government authorities in respect of the aforesaid discrepancies.
- (4) All business operations were transferred to Tin Ho from Sencas on 1 January 2011.
- (5) General restaurant licence covers “Level 1 (Portion)” and “Shop Nos. 6, 8S1, 8T1, 8U1 and 11, Level 3” of Waldorf Garden but “Level 1 (Portion)” is not covered by the business registration certificate of Red Seasons, the liquor licence nor the water pollution control licence. The Directors have explained that “Level 1 (Portion)” covers a fire escape route with no actual business operation and such area does not involve the serving of any liquor. Thus, a liquor licence was not obtained in respect of “Level 1 (Portion)”. Given that (i) the FEHD must be aware of the address as shown in the business registration certificate of Red Seasons in granting the general restaurant licence of Tuen Mun Red Seasons; (ii) the FEHD, the Buildings Department and the Fire Services Department must have conducted site inspections of the premises of Tuen Mun Red Seasons prior to the grant of its general restaurant licence; (iii) there is no legal requirement that the addresses as shown in the business registration licence, the liquor licence and the water pollution control licence of a restaurant must exactly match with that as shown in the general restaurant licence; and (iv) the Liquor Licensing Office must be aware that the address as shown in the business registration certificate of Red Seasons did not exactly match with that as shown in the general restaurant licence of Tuen Mun Red Seasons, the Company’s Hong Kong legal advisers are of the opinion that the discrepancies in the addresses as shown in the business registration certificate, general restaurant licence, liquor licence and water pollution control licence, respectively, do not amount to non-compliance of any applicable Hong Kong law and regulation. As at the Latest Practicable Date, the Group had not received any notice regarding any action that may be taken or fines that may be imposed by the relevant government authorities in respect of the aforesaid discrepancies.
- (6) General restaurant licence covers “G/F (Portion)”, “1/F” and “2/F” of Victory Court but “G/F (Portion)” is not covered by the business registration certificate of RS Catering, the liquor licence nor the water pollution control licence. The Directors have explained that “G/F (Portion)” covers a staircase with no actual business operation and such area does not involve the serving of any liquor. Thus, the liquor licence was not obtained in respect of “G/F (Portion)”. Given that (i) the FEHD must be aware of the address as shown in the business registration certificate of RS Catering in granting the general restaurant licence of Tsuen Wan Red Seasons; (ii) the FEHD, the Buildings Department and the Fire Services Department must have conducted site inspections of the premises of Tsuen Wan Red Seasons prior to the grant of its general restaurant licence; (iii) there is no legal requirement that the addresses as shown in the liquor licence and the water pollution control licence of a restaurant must exactly match with that as shown in the general restaurant licence; and (iv) the Liquor Licensing Office must be aware that the address as shown in the business registration certificate of RS Catering did not exactly match with that

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as shown in the general restaurant licence of Tsuen Wan Red Seasons, the Company's Hong Kong legal advisers are of the opinion that the discrepancies in the addresses as shown in the business registration certificate, general restaurant licence, liquor licence and water pollution control licence, respectively, do not amount to non-compliance of any applicable Hong Kong law and regulation. As at the Latest Practicable Date, the Group had not received any notice regarding any action that may be taken or fines that may be imposed by the relevant government authorities in respect of the aforesaid discrepancies.

- (7) General restaurant licence and liquor licence cover "G/F" and "1/F" of 1 Main Street but "G/F" and "1/F" are not covered by the business registration certificate of Tin Ho nor the relevant water pollution control licence. Given that there is no legal requirement that the addresses as shown in the business registration certificate and the water pollution licence must exactly match with that as shown in the general restaurant licence or liquor licence, the Company's Hong Kong legal advisers are of the opinion that the discrepancies in the addresses as shown in the business registration certificate, general restaurant licence, liquor licence and water pollution control licence, respectively, do not amount to non-compliance of any applicable Hong Kong law and regulation. As at the Latest Practicable Date, the Group had not received any notice regarding any action that may be taken or fines that may be imposed by the relevant government authorities in respect of the aforesaid discrepancies.

Save as disclosed above, as at the Latest Practicable Date, a general restaurant licence, a water pollution control licence and a liquor licence were issued in respect of the premises at which each of the Group's restaurants operate. The expiry dates of these existing licences fall between 26 July 2011 to 30 June 2016. The application for renewal of liquor licence by Tsuen Wan Red Seasons which will expire on 26 July 2011 was made on 3 May 2011. The Group expects to obtain the renewed liquor licence for Tsuen Wan Red Seasons prior to its expiry date. In any event, the Group will not sell or supply liquor without a valid liquor licence. The Group has not encountered any difficulty or rejection in obtaining or renewing the licences in the past and thus the Directors do not foresee any impediments in renewing all such licences.

The holder of the general restaurant licence in respect of Lam Tei Red Seasons was Tin Ho (a subsidiary of the Company) instead of Sencas (a subsidiary of the Company) which actually operated Lam Tei Red Seasons. On 30 September 2006, Mr. Wong KM, through Queenmax, acquired controlling interest in Tin Ho which was incorporated on 14 December 1979 and operated Chinese restaurants prior to such acquisition. The Directors considered that the long establishment of Tin Ho may result in hidden liabilities which may in turn jeopardise the operations of Lam Tei Red Seasons. The Directors thus decided to operate the restaurant under the newly set up Sencas. The Directors were not aware that having separate companies to hold the general restaurant licence and operate the restaurant business may result in the violation of FBR. Lam Tei Red Seasons has a long history of business operation and the charcoal stoves used in its operation were installed before certain current requirements of the Fire Services Department and the EPD relating to the use of fuel and consumption of charcoal came into effect. The Directors worried that the administrative procedures relating to an application of a new restaurant licence by Sencas for the operation of Lam Tei Red Seasons may be burdensome as applications for general restaurant licences may be referred by the FEHD to other departments concerned for comments and such departments concerned may have more comments on the charcoal stoves of Lam Tei Red Seasons in the case of a new licence application than a renewal of licence. In view of the burdensome administrative procedures which may be involved in the application of new relevant restaurant licences for Lam Tei Red Seasons by Sencas due to Tin Ho's long history of establishment, Lam Tei Red Seasons was operated by Sencas while the relevant restaurant licence remained to be held by Tin Ho. Since the acquisition of the controlling interest in Tin Ho on 30 September 2006, no

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unrecorded liabilities have been revealed. Therefore, by the time the Directors became aware of the relevant requirements of FBR after consulting with the Company's Hong Kong legal advisers in 2010, the Directors consider that the possibility of Tin Ho having hidden liabilities is remote and are of the view that there is no material adverse impact on Lam Tei Red Seasons to transfer the business operation from Sencas to Tin Ho. Having considered that (i) the possibility of Tin Ho having hidden liabilities is remote; and (ii) the burdensome administrative procedures which may be involved in the application of new relevant restaurant licences for Lam Tei Red Seasons by Sencas due to Tin Ho's long history of establishment as explained above, the Directors decided to transfer the business operations from Sencas to Tin Ho after considering the aforementioned factors and based on their experience. The Directors confirm that such arrangement was not carried out to avoid any possible safety requirements on the charcoal stoves of Lam Tei Red Seasons which may otherwise be imposed by the FEHD on the Group if the Group instead applied for a new licence. Further, regular inspection has been conducted by the FEHD on Lam Tei Red Seasons and the Group has not received any notice regarding any action that may be taken or fines that may be imposed by the FEHD in respect of the charcoal stoves of Lam Tei Red Seasons. In December 2010, the Group made arrangements to transfer the business operations of Lam Tei Red Seasons from Sencas to Tin Ho. All business operations were transferred on 1 January 2011.

The holder of the general restaurant licence in respect of Plentiful Delight Banquet Restaurant was Jubilant (a wholly-owned subsidiary of the Company) instead of Gayety (a wholly-owned subsidiary of the Company) which actually operated the Plentiful Delight Banquet Restaurant. Prior to the opening of Plentiful Delight Banquet Restaurant in February 2007, the Directors had simply replicated the arrangement adopted by Tin Ho and Sencas with respect to the operations of Lam Tei Red Seasons, that is, to have separate companies to hold the general restaurant licence and operate the restaurant business. The Directors were not aware that such arrangement may result in the violation of FBR then. Having considered that (i) the transfer of the business operations from Gayety to Jubilant will involve, among others, the arrangement to novate existing contracts made by Gayety and relationship management with suppliers which may incur additional time, resources and cost for the Group; and (ii) the general restaurant licence was only granted to Jubilant in February 2007, the Directors considered that, based on their experience, it would be more efficient to transfer the general restaurant licence from Jubilant to Gayety. In November 2010, the Group made an application for the transfer of the general restaurant licence from Jubilant to Gayety. The FEHD approved such transfer in March 2011 and a general restaurant licence in the name of Gayety was issued for Plentiful Delight Banquet Restaurant.

The Directors consider both choices of transferring the restaurant operation to the general restaurant licence holder in the case of Lam Tei Red Seasons or the general restaurant licence to the restaurant operating company in the case of Plentiful Delight Banquet Restaurant fulfilled the purpose of alignment of business operations of the restaurant with the company which holds the general restaurant licence for such restaurant in order to avoid the violation of FBR in the future, which the decisions were made primarily based on the experience of the Directors with reference to the time and resources required for execution. For the avoidance of doubt, the Group will align the business operations of the restaurant with the company which holds the general restaurant licence for such restaurant in order to avoid the violation of FBR in the future.

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If the Group is found to have been in breach of section 31(1) of FBR for the carrying on of restaurant business by a person who is not the named licensee of the relevant restaurant licence, the maximum penalty is a fine of HK\$50,000, imprisonment for six months to which the person who causes, permits or suffers to be carried on the restaurant business in such manner shall be liable and, in the case of continuing offences, an additional daily fine of HK\$900. The court may also impose a prohibition order prohibiting the use of the premises for the restaurant business or, in the case of a breach of the prohibition order, a closure order closing down the premises.

The Company's Hong Kong legal advisers are of the opinion that the Group violated section 31(1) of FBR for the carrying on of restaurant business of the Relevant Restaurants by a company who is not the named licensee of the relevant restaurant licence. As advised by the Company's Hong Kong legal advisers, the likelihood of the Group being penalised for such violation or any regulatory action on the violation by the FEHD is remote for the following reasons:

- (i) since the commencement of the business of the Relevant Restaurants until the Latest Practicable Date, the Group had not been required by the FEHD to change the holder of the restaurant licence or suspend or cease operations;
- (ii) both of the Relevant Restaurants are operated by the Group in the same respective premises at all times;
- (iii) each of the general restaurant licences in respect of the Relevant Restaurants currently held is valid, not expired and has not otherwise been revoked;
- (iv) the Group has not encountered any difficulty or rejection in obtaining and renewing any of the general restaurant licence in respect of the Relevant Restaurants in the past;
- (v) no member of the Group has been questioned by the FEHD in respect of the identity of the licensee of the general restaurant licence during the annual renewal process and regular inspections; and
- (vi) as at the Latest Practicable Date, the restaurant businesses of the Relevant Restaurants were carried on by persons who are the named licensees of the relevant restaurant licences and the Group was no longer in violation of section 31(1) of FBR since, in respect of Plentiful Delight Banquet Restaurant, the transfer of the general restaurant licence from Jubilant to Gayety was completed and a general restaurant licence in the name of Gayety was issued on 29 March 2011 and, in respect of Lam Tei Red Seasons, the transfer of all business operations from Sencas to Tin Ho was completed on 1 January 2011.

The FEHD was aware that the Relevant Restaurants were not operated by the named licensees as described above. The Group has made verbal consultation with the FEHD on whether it will be penalised for violation of the FBR as described above. Based on the reply of the FEHD, the Directors are of the view that the Group will not be penalised in such circumstances.

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Taking into account the opinion of the Company's Hong Kong legal advisers as set out above, the Directors confirm that the restaurant business of both of the Relevant Restaurants can continue to be operated after completion of such transfers, and the chance of imposing the maximum penalty for violating the provisions of the FBR in the past is unlikely.

In addition, applications for the water pollution control licence have not been made for any of the Group's restaurants before commencing the discharge of trade effluents into specific water control zones as the relevant Directors and senior management did not know that the water pollution control licence need to be obtained under the WPCO. Since then, the relevant Directors and senior management personnel of the Group have received training by the Company's Hong Kong legal advisers on the licencing requirements in this regard. In December 2010, the Group made applications for water pollution control licence. As at the Latest Practicable Date, the Group had obtained valid water pollution control licence for each of its restaurants.

Pursuant to section 11(1) of the WPCO, if the Group is found to have been in breach of sections 8(1), 8(2), 9(1) or 9(2) of the WPCO for any prohibited discharges thereunder, the maximum penalty is imprisonment for six months to which the person who commits the offence shall be liable and, in the case of a first offence, a fine of HK\$200,000, in the case of a subsequent offence, a fine of HK\$400,000, and in the case of a continuing offence, an additional daily fine of HK\$10,000.

The Company's Hong Kong legal advisers are of the view that pursuant to section 11(1) of the WPCO, the Group violated sections 8(1), 8(2), 9(1) and 9(2) of the WPCO for the discharge of trade effluents into specific water control zones by its restaurants as none of which had a valid water control pollution licence. As advised by the Company's Hong Kong legal advisers, the likelihood of the Group being penalised for such violation or any regulatory action on the violation by the EPD is remote, since the Group had not received any notice regarding any action that may be taken or fines that may be imposed by EPD and EPD had already approved the applications for the water pollution control licence for each of the Group's five restaurants.

The EPD was aware that the Group did not obtain water pollution control licence for its restaurants as described above. The Group has made verbal consultation with the EPD on whether it will be penalised for violation of the WPCO as described above. Based on the reply of the EPD, the Directors are of the view that the Group will not be penalised for the violation of the WPCO as discussed in this section.

To ensure the Group's compliance with the relevant licensing requirements in the future, the Group will only open a new restaurant if all requirements under the applicable laws and regulations are complied with prior to its opening. The Group has implemented a set of internal compliance guidelines in relation to the opening of restaurants covering the monitoring of application and maintenance of the licences, approvals, permits and registrations of its restaurants. The chairman and the respective restaurant managers of the Group are responsible for overseeing the implementation of the guidelines to ensure that all the requirements are

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complied with prior to the opening of any new restaurants. The Group would procure external consultants to prepare and submit the necessary documents to the relevant government authorities approximately two months prior to the expected opening date of the restaurant. The Company would then arrange for on-site visit of the government officials from, among others, the FEHD, the Buildings Department and the Fire Services Department, and obtain the consents for issuing the general restaurant licences. The proposed restaurant manager of the new restaurant would make the relevant application to obtain the liquor licence three months prior to the expected opening date of the restaurant. The Directors considered that, based on their past experience in obtaining the relevant licences, the time for application of the relevant licences would be sufficient. In any event, the Group will open a new restaurant only if all required licences are obtained.

In respect of the existing licences and approvals of the Group's restaurants, a table listing out the validity periods of each licence and approval would be maintained and reviewed by the Directors monthly to ensure that all licences and approvals are valid and subsisting and that renewals of such licences are made in a timely manner. The relevant Directors and senior management personnel of the Group have also received training by the Company's Hong Kong legal advisers on the above licensing and approval requirements.

During the food preparation process and operations of the restaurants, certain sewages, used oils and garbage would be produced and maintained by the Group. Apart from the daily cleansing procedures adopted by the Group, the Group also procured external cleansing companies, which are Independent Third Parties, from time to time, if necessary, to provide cleaning services including but not limited to sewage treatment, drainage cleaning and oil tank cleaning and to the restaurants of the Group. The relevant costs incurred by the Group in compliance with its environment obligations under law for the years ended 31 December 2009 and 2010 amounted to approximately HK\$22,600 and HK\$57,200 respectively. The Group expects to incur relevant compliance cost of approximately HK\$60,000 in the coming year.

Mr. Wong KM and Ms. Lau LY, each a Controlling Shareholder, have undertaken to indemnify the Group, on a joint and several basis, against any costs, expenses, claims, liabilities, penalties, losses or damages incurred or suffered by the Group arising from or in connection with the Group's restaurants operating without a general restaurant licence, water pollution control licence or liquor licence including the Group's carrying on of restaurant business by a company who is not the named licensee of the relevant restaurant licence as discussed above prior to Listing.

Having considered that (i) non-compliance incidents set out in this section did not involve fraudulent acts; (ii) rectification measures have been carried out since the incidents, in particular, the Group has made necessary arrangements and applications to obtain the required licence before Listing; (iii) the Group has revisited and implemented internal control procedures to ensure the Group's compliance with the relevant licensing requirements in the future as disclosed in this section; (iv) the relevant Directors and senior management personnel of the Group have received training by the Company's Hong Kong legal advisers on the licensing requirement in this regard; (v) the Directors have undertaken to attend annual

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training on the laws and regulations related to the business operations of the Group, including the GEM Listing Rules and the Companies Ordinance to be provided by the Company's Hong Kong legal advisers; and (vi) disclosure has been made in relation to the non-compliance incidents in the prospectus, the Sponsor considered that the non-compliance incidents did not raise concern on Mr. Wong KM's and Ms. Lau LY's character, experience, integrity and competence commensurate with the position as Directors and is of the view that the Directors can adequately discharge their duties as Directors.

Based on the aforesaid, the Sponsor is of the view that the both Mr. Wong KM and Ms. Lau LY are suitable to act as Directors under GEM Listing Rules 5.01 and 5.02.

PRODUCT DEVELOPMENT

The Group appreciates the importance of introducing creative dishes regularly to attract a broader customer base and its operating results. In view of it, the Group would update its menus regularly in response to the changing tastes of the customers and general sentiment. In developing new menu items, the head chefs of each of the Group's restaurants consider the market trends, seasonal factors and feedbacks from the customers who frequently visit the Group's restaurants. They also make variations to the existing dishes according to seasons and trends, conforming to modern dietetics. All the head chefs of the Group's restaurants have substantial experience in cooking and serving Chinese cuisine and have sufficient knowledge of local tastes and preference and can create dishes that suit the customer needs. Before launching any new dishes, Mr. Wong KM and all the head chefs gather for tasting the new dishes and they are responsible for making the final approval of any new dishes, their ingredients and prices.

The Directors have considered certain cooperation opportunities to form strategic partnerships or cooperation arrangements with reputable industry partners in Hong Kong and China. For example, the Group may offer its restaurants as distribution channels in Hong Kong for its Chinese partners to sell their products, such as pre-packed and canned foods. The Group may also use its extensive industry experience and food knowledge to provide advice on product development or quality. The Group also plans to leverage on such partners' connections and experiences in China market to establish business presence in China when the opportunity arises. In recent years, there is a steady and rapid economic growth in China and the local residents have higher consuming powers and demands for quality Chinese food and services than before. Notwithstanding that the Directors do not have any experience in running the business in China, the Directors believe that the Group can leverage its brand recognition in Hong Kong to explore restaurant or other food-related business in China. As at the Latest Practicable Date, no concrete plan for such initiatives has been identified or confirmed.

COMPETITION

The restaurant industry in Hong Kong is keen and highly competitive. There are many Chinese restaurants offering different kinds of Chinese cuisine and providing Chinese wedding banquet and dining services for large-scale events. Different Chinese restaurants operators target different customers whose spending power and demands vary. In addition, there are many restaurants in Hong Kong offering non-Chinese cuisine, such as Asian cuisine and international cuisine.

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The restaurant industry in Hong Kong is also fragmented and diverse. There are no significant barriers of entry into the restaurant business other than a new entrant's ability to satisfy various general licensing requirements. The size, number, and strength of the competitors in this industry vary widely and there is no significant player dominating the whole industry. Though different segments of the restaurant industry have their own leading players, their individual market share varies from one segment to the other. Thus, the Directors consider that none of the operators in one segment can be treated as a direct competitor of another operator in a different segment.

Generally, competition in the restaurant industry is based on, among other things, quality of food, quality of services, price, location, dining environment and reputation. The Group considers that it is in a prominent position in the local Chinese restaurant market compared with most of its competitors and it can maintain such position as it has the following advantages:

- the Group places high emphasis on the quality of food and services to customers;
- the Group preserves traditional Chinese cooking and recipes and continuously introduce creative dishes;
- the Group offers quality food at competitive prices;
- the Group has an established reputation for quality food;
- the Group has adopted a restaurant network expansion strategy for capturing target customers;
- the Group has an experienced senior management team; and
- the Group provides comprehensive and systematic training to its staff.

INSURANCE

The Group maintains insurance for employees' compensation liability for personal injury and illnesses, public liability to cover the Group against any claims of illness, injuries or damage to personal property by the customers, commercial general liability insurance to cover any liability for damages arising out of the business operation, cash policy for loss of money at the business premises, fire insurance, insurance for the properties, plant and equipment in the restaurants and loss of profit insurance for covering reduction in turnover and increase in costs of production. Apart from this, the Group does not have any specific insurance coverage for any loss of the Group as a result of any outbreak of food-borne diseases such as Swine Influenza.

The Directors are of the view that the aforesaid insurance coverage is sufficient and is in line with normal commercial practice in Hong Kong.

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PROPERTY

Owned property

As at the Latest Practicable Date, the Group did not own any property.

Leased properties

As at the Latest Practicable Date, the Group leased the following properties in Hong Kong for use as restaurant premises, office and warehouses, respectively.

Restaurants

Plentiful Delight Banquet Restaurant

In July and August 2006, Jubilant entered into two leases with E-Profit, owned as to 18% by Ms. Lau LY, and an Independent Third Party, respectively, for the use of two properties situated at 1st Floor, Ho Shun Tai Building, No. 10 Sai Ching Street, Yuen Long, New Territories, Hong Kong with a total saleable area of approximately 1,712 sq.m as the restaurant premises of Plentiful Delight Banquet Restaurant. The terms of the leases will expire on 30 April 2017. On 28 January 2011, Jubilant and Gayety entered into two deeds of novation with the respective landlords under the leases whereby all of Jubilant's rights and obligations under the respective leases were transferred to Gayety.

Lam Tei Red Seasons

In August 2009, Sencas entered into a tenancy agreement for the use of a property situated at No. 6 Lam Tei Main Street, Lam Tei, Tuen Mun, New Territories, Hong Kong, with a total saleable area of approximately 114.83 sq.m from an Independent Third Party as part of the restaurant premises of Lam Tei Red Seasons. The tenancy agreement will expire on 30 June 2011. In respect of such property, Sencas and Tin Ho entered into a deed of novation on 1 January 2011 with the landlord whereby all of Sencas's rights and obligations for the remaining term under the tenancy agreement were transferred to Tin Ho with effect from the same date. In June 2011, Tin Ho entered into a tenancy agreement with the landlord to lease the same property for a term of two years commencing from 1 July 2011 and expiring on 30 June 2013.

In June 2011, Tin Ho entered into a tenancy agreement for the use of a property situated at No. 1 Lam Tei Main Street, Lam Tei, Tuen Mun, New Territories, Hong Kong, with a total saleable area of approximately 480.77 sq.m from an Independent Third Party as part of the restaurant premises of Lam Tei Red Seasons. The term of the tenancy agreement will expire on 30 June 2013.

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Shatin Red Seasons

In January 2010, RS Corporation entered into a lease for the use of a property situated at Shop No. 33, Level 1 and Level 2, Garden Rivera, Nos. 20-30 Tai Chung Kiu Road, Shatin, New Territories, Hong Kong and a covered carparking space with a total saleable area of approximately 879.41 sq.m from U Investments, a connected person of the Company, as the restaurant premises of Shatin Red Seasons. The term of the lease will expire on 31 December 2014.

Tsuen Wan Red Seasons

In May 2010, RS Catering entered into a tenancy agreement for the use of a property situated at 1st Floor (together with adjacent flat roof) and 2nd Floor, Victory Court, No. 185 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong with a total saleable area of approximately 1,009.48 sq.m and a flat roof area of about 21.46 sq.m. from an Independent Third Party as the restaurant premises of Tsuen Wan Red Seasons. The term of the tenancy agreement will expire on 2 May 2016.

Tuen Mun Red Seasons

In December 2009, Red Seasons entered into a lease for the use of a property situated at Shop Nos. 6 and 4H (also known as Shop Nos. 6, 8S1, 8T1, 8U1 and 11 or known as Restaurant 7), Level 3, Waldorf Garden, No. 1 Tuen Lee Street, Tuen Mun, New Territories, Hong Kong with a total saleable area of approximately 790.78 sq.m from an Independent Third Party as the restaurant premises of Tuen Mun Red Seasons. The term of the lease will expire on 14 August 2013.

Office

In May 2011, Jubilant entered into a tenancy agreement for the use of a property situated at Shop No. 46, Ground Floor, Ho Shun Tai Building, No. 10 Sai Ching Street, Yuen Long, New Territories, Hong Kong with a saleable area of approximately 54.07 sq.m from two Independent Third Parties as the Group's office. The tenancy agreement will expire on 15 September 2013 and may be renewed for another two years upon expiry.

Warehouse

In June 2009, a tenancy agreement was entered into with an Independent Third Party for the use of a property situated at Lot Nos. 759RP and 764BRP in Demarcation District No. 130, Lam Tei, Tuen Mun, New Territories, Hong Kong with a total site area of approximately 955.96 sq.m as warehouse. The term of the tenancy agreement will expire on 30 June 2011. The tenancy agreement will not be renewed upon expiry.

All the above-mentioned leases/tenancy agreements were negotiated on an arm's length basis with reference to the prevailing market rates.

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The property in relation to the office in Yuen Long is currently subject to mortgage. The relevant landlord has not obtained the mortgagee's consent in entering into the tenancy agreement. Until the requisite mortgagee's consent is obtained, there is a risk that the tenancy agreement will not be binding on the mortgagee and if the landlord defaults on the mortgage, the mortgagee may exercise its right to repossess the property pursuant to the terms of the mortgage. The Group is in the process of liaising with the landlord to obtain the relevant mortgagee's consent. In the event that the Group is required to relocate its office, it is estimated that the Group would be able to relocate to alternative premises within reasonable proximity at a relocation cost of approximately HK\$580,000. No loss of revenue is expected due to such relocation. For details of the risk associated with such relocation, please refer to the section headed "Risk Factors" in this prospectus.

During the Track Record Period, the Group leased a warehouse in Yuen Long, which was subject to mortgage, from an Independent Third Party. The landlord had not obtained the mortgagee's consent in entering into the relevant tenancy agreement. The tenancy agreement was terminated on 7 March 2011.

In respect of the warehouse in Tuen Mun, a tenancy agreement was entered into with the landlord which is an Independent Third Party, which leases the land under a head lease. With the express consent of the landlord, the Group has sublet part of the warehouse to an Independent Third Party since mid-2009. The landlord has failed to provide the registered owner's consent for entering into the aforesaid tenancy agreement and for authorising the Group to sublet part of the warehouse to the Independent Third Party. The Group will cease the use of the warehouse in Tuen Mun upon expiry of the tenancy agreement on 30 June 2011.

Mr. Wong KM and Ms. Lau LY, each a Controlling Shareholder, have undertaken to indemnify the Group, on a joint and several basis, against any costs, expenses, claims, liabilities, penalties, losses or damages incurred or suffered by the Group arising from or in connection with any failure to obtain mortgagee's consent as described above.



Save as disclosed above, as at the Latest Practicable Date, the Group had complied with all the applicable laws in respect of its leased properties in all material respects.

For further details of the Group's property interests, please refer to the valuation report prepared by Ample Appraisal Limited, an independent property valuer, are set out in Appendix III to this prospectus.

INTELLECTUAL PROPERTY RIGHTS

The "季季紅" trademark, which was registered in Hong Kong under class 43, was assigned and transferred by Ms. Lau LY to GR Holdings on 10 November 2010. As at the Latest Practicable Date, the Group owned the rights to four registered trademarks in Hong Kong, which are being used or intended to be used by the Group.

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Applications for the registration of the “” and “又一餐” trademarks in Hong Kong under classes 29, 30 and 43, the “季季紅” trademark under classes 29 and 30, the “蝦禾米乳香豬” and “有米豬” trademarks under classes 29 and 43 and the “” trademark under class 43 were made to the Trade Marks Registry in Hong Kong during the period from November 2010 to March 2011. All such applications were still being processed as at the Latest Practicable Date.

As at the Latest Practicable Date, the Group had not received any claim against it for infringement of any trademark nor was it aware of any pending or threatened claims in relation to any such infringement. The Directors are not aware of any legal impediment which may prevent the Group from having the above trademarks registered in Hong Kong.

The Group has registered the following domain names: www.gayety.com.hk and www.redseasons.com.hk.

Further information relating to the intellectual property rights of the Group is set out in the sub-paragraph headed “Intellectual property rights of the Company” of the paragraph headed “Further information about the business of the Company” in Appendix V to this prospectus.

During the Track Record Period, the Group did not have any pending or threatened claim against the Group, nor had any claim been made by the Group against third parties, with respect to the infringement of intellectual property rights owned by the Group or third parties.

LEGAL PROCEEDINGS – THE GROUP

The Company has confirmed that as at the Latest Practicable Date, there were no pending or threatened litigation or other proceedings that may, and none of the members of the Group was involved in any litigation or other proceedings the outcome of which the Directors believe might, individually or taken as a whole, materially and adversely affect the Group’s business, financial condition or results of operations. Further, there was no material litigation, whether pending or threatened, which had arisen in the ordinary course of employment or business operations of the Group during the Track Record Period and as at the Latest Practicable Date.

LEGAL PROCEEDINGS – DIRECTORS

Mr. Wong KM

Mr. Wong KM was involved in a legal action in relation to a pig’s farm (the “**Farm**”) operated by him which ordered feeding food from the plaintiff of this action (the “**Plaintiff**”). In or about 1997, Mr. Wong KM entered into an oral agreement with a third party to transfer the operation of the Farm. In or about 1998, Mr. Wong KM further entered into a written agreement with the third party which provides that the third party shall be responsible for the profit and loss of the Farm. Since then, Mr. Wong KM ceased his ownership in the Farm and had no involvement in the operation of the Farm.

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The Plaintiff took out an action in 2002 to claim from Mr. Wong KM the outstanding amounts of goods sold and delivered to the Farm from 1997 to 1999. It was Mr. Wong KM's defence that he had duly made all the payments for the feeding food the Farm had ordered and he had no involvement in the operation of the Farm since the aforesaid change of proprietorship in or about 1998.

An order was made by way of consent of both parties in 2003 pursuant to which Mr. Wong KM would pay a sum of HK\$240,000 in full and final settlement to the Plaintiff and the said legal action would be stayed save and except for the purpose of enforcement of the order. Since Mr. Wong KM believes that it should be the third party rather than he himself who should be responsible for the said outstanding amounts after the change of proprietorship of the Farm, the said sum of HK\$240,000 has not been paid by Mr. Wong KM. The Company's Hong Kong legal advisers are of the view that the above consent order is subject to any proceedings for enforcement that may be instituted by the Plaintiff. As at the Latest Practicable Date, more than seven years have lapsed since the date of the above consent order, and the Plaintiff had not taken any action to enforce the court order against him. Based on the foregoing, Mr. Wong KM believes that the matter has in practice been settled.

Having considered that (i) there is no information available to the Sponsor in respect of the above litigation which suggests any dishonesty that will give rise to concern over the integrity of Mr. Wong KM nor will affect Mr. Wong KM's ability to fulfil his fiduciary duties and his duties of skill, care and diligence towards the Shareholders; (ii) as at the Latest Practicable Date, more than seven years have lapsed since the date of the above consent order and that the Plaintiff had not taken any action to enforce the same court order against Mr. Wong KM; (iii) Mr. Wong KM's belief that the matter has been settled is reasonable given the lapse of time; and (iv) the amount involved is not material, the Sponsor considered that the litigation did not raise concern on Mr. Wong KM's character, experience, integrity and competence commensurate with the position as a Director and is of the view that Mr. Wong KM would be suitable to act as a Director under Rules 5.01 and 5.02 of the GEM Listing Rules.

Ms Lau LY

As part of a transaction in purchasing a restaurant from a restaurant owner in or about December 2009, Red Seasons Investments Limited ("**Red Seasons Investments**"), a company privately owned as to 50% by Ms. Lau LY and of which Ms. Lau LY is a director, negotiated with the landlord (being the owner of the property in which the restaurant owner is operating its restaurant business) for the acceptance of a novation of the relevant lease. In order to show its sincerity, Red Seasons Investments procured Ms. Lau LY to draw two personal cheques in favour of the restaurant owner and the landlord in the respective sums of HK\$300,000 and HK\$270,000. Red Seasons Investments sent the two cheques to the restaurant owner and the landlord together with the draft Confirmation of Tenancy (the "**Confirmation**") and the draft Sale and Purchase Agreement (the "**SP Agreement**") as amended by Red Seasons Investments through an agent (collectively, the "**Counter-offers**").

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Before the amended draft Confirmation and SP Agreement were signed, in the process of negotiation, the agent has informed Red Seasons Investments that the restaurant owner did not hold the general restaurant licence and therefore immediately revoked the Counter-offers through the agent. Ms. Lau LY also took action to stop the payment of the two personal cheques.

In or about April 2010, the restaurant owner commenced a legal action at the District Court (i) against Red Seasons Investments for the cheque amount of HK\$300,000 and damages; and (ii) against Ms. Lau LY for the cheque amount of HK\$300,000. At or about the same time, the landlord also commenced a legal action at the District Court (i) against Red Seasons Investments for the cheque amount of HK\$270,000 and damages; and (ii) against Ms. Lau LY for the cheque amount of HK\$270,000. A Defence and a Reply have been filed by the defendants and the plaintiff of each of these legal actions respectively. The Directors confirm that, as at the Latest Practicable Date, neither the restaurant owner nor the landlord had proceeded further with the prosecution of these legal actions.

The Company's Hong Kong legal advisers are of the view that barring any new and contradictory evidence, if the agent gives evidence that the revocation of the Counter-offers by Red Seasons Investments is earlier than the acceptance made by the restaurant owner and the landlord, Red Seasons Investments is likely to win the legal actions.

The legal actions will not have any adverse impact to the Group since Red Seasons Investments is not within the Group. Even if Red Seasons Investments loses the legal actions, the personal liability of Ms. Lau LY is only limited to the amounts of the personal cheques, i.e. HK\$570,000. Further, she is entitled to take legal action to recover the said sum of HK\$570,000 from Red Seasons Investments after paying the restaurant owner and the landlord.

Having considered (i) the plaintiff of the above litigation had taken no further action since July 2010 after the defendants had filed their defence, thus the Sponsor consider that there is no reasonable grounds to question the ability or integrity of Ms. Lau LY to act as a Director based on a disputed case; (ii) there is no information available to the Sponsor in respect of the above litigation which suggests any dishonesty that will give rise to concern over the integrity of Ms. Lau LY nor will affect Ms. Lau LY's ability to fulfil her fiduciary duties and her duties of skill, care and diligence towards the Shareholders; (iii) the background of the above litigation of Ms. Lau LY; (iv) the fact that neither the restaurant owner nor the landlord has proceeded further with the prosecution of legal actions concerned; (v) no court order or judgment has been made against Ms. Lau LY in the legal actions; (vi) the Company's Hong Kong legal advisers are of the view that if the agent mentioned above gives evidence that the revocation of the Counter-offers by Red Seasons Investments is earlier than the acceptance made by the restaurant owner and the landlord, Red Seasons Investments is likely to win the legal actions barring any new and contradictory evidence; and (vii) the amount in dispute is not material, the Sponsor is of the opinion that the above litigation does not raise concern on Ms. Lau LY's character, experience, integrity and competence commensurate with the position as a Director and is of the view that Ms. Lau LY is suitable to act as a Director under Rules 5.01 and 5.02 of the GEM Listing Rules.

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NON-COMPLIANCE WITH COMPANIES ORDINANCE

Jubilant was incorporated on 8 August 2006. It obtained the provisional general restaurant licence in respect of Plentiful Delight Banquet Restaurant on 7 February 2007. During the period from 7 February 2007 until 28 March 2011, Jubilant was the holder of the (full/provisional) general restaurant licence in respect of Plentiful Delight Banquet Restaurant and had no real operations. A set of combined accounts of Jubilant and Gayety were prepared for the period from the date of incorporation of Jubilant to 31 December 2007 and each of the years ended 31 December 2008 and 2009, respectively. Separate accounts for each such year/period (the “**Jubilant Accounts**”) were not prepared for Jubilant.

During the period from 30 September 2006 (the date on which Queenmax acquired 60% interests in Tin Ho) until 1 January 2011 (the date on which all business operations of Lam Tei Red Seasons were transferred to Sencas), Tin Ho was the holder of the general restaurant licence in respect of Lam Tei Red Seasons and had no real operations. The accounts of Tin Ho for each of the years ended 31 March 2006, 2007, 2008 and 2009 (collectively, the “**Tin Ho Accounts**”) were prepared but not laid at an annual general meeting of Tin Ho and accounts for the period from 1 April 2009 to 31 December 2009 (the “**2009 Tin Ho Accounts**”) were not prepared for Tin Ho.

In respect of the accounts of Gayety, accounts for the period from the date of incorporation of Gayety to 31 December 2007 (the “**2007 Gayety Accounts**”) were approved by a resolution in writing of the sole member of Gayety in lieu of a general meeting which was passed on 27 July 2009 (the “**2009 Gayety Resolution**”) and accounts for the year ended 31 December 2009 (the “**2009 Gayety Accounts**”) were prepared but not laid at an annual general meeting of Gayety.

In respect of the accounts of Red Seasons, accounts for the period ended 31 December 2009 (the “**Red Seasons Accounts**”) were not prepared.

As a result of the above, no valid annual general meeting was convened by Jubilant in 2008, 2009 and 2010, by Tin Ho in 2006, 2007, 2008, 2009 and 2010, by Gayety in 2008 and 2010, and by Red Seasons in 2011.

In 2010, PricewaterhouseCoopers was engaged as the reporting accountant of the Company in connection with the Listing, and it discovered that the Jubilant Accounts, Tin Ho Accounts, 2009 Tin Ho Accounts, the 2007 Gayety Accounts, the 2009 Gayety Accounts and Red Seasons Accounts (collectively, the “**Accounts**”) had not been laid/prepared in accordance with the requirements of the Companies Ordinance. In response to this:

- (i) the Jubilant accounts were prepared and approved by the sole member of Jubilant by way of written resolution on 31 March 2011 (the “**Jubilant Resolution**”);

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- (ii) the Tin Ho Accounts were approved by all members of Tin Ho by way of written resolution on 31 March 2011 (the “**Tin Ho Resolution**”);
- (iii) the 2009 Tin Ho Accounts were prepared and approved by the Tin Ho Resolution;
- (iv) the 2009 Gayety Accounts were approved by the sole member of Gayety by way of written resolution on 31 March 2011 (the “**2011 Gayety Resolution**”); and
- (v) the Red Seasons Accounts were prepared and approved by all members of Red Seasons by way of written resolution on 31 May 2011.

Each of Jubilant, Tin Ho, Gayety and Red Seasons applied to the Court of First Instance of the High Court on 6 April 2011 for an extension of time for the laying the Accounts before the general meetings of the relevant companies pursuant to section 122 of the Companies Ordinance and for directions deeming the relevant written resolutions of members of the relevant companies to be their annual general meetings pursuant to section 111 of the Companies Ordinance. On 19 April 2011, orders were granted by the Court of First Instance of High Court, pursuant to which:

Jubilant

- (i) the Jubilant Resolution be deemed to be the annual general meeting of Jubilant for the years 2008, 2009 and 2010;
- (ii) the period for the laying of the Jubilant Accounts was extended to 31 March 2011;

Tin Ho

- (i) the Tin Ho Resolution be deemed to be the annual general meeting of Tin Ho for the years 2006, 2007, 2008, 2009 and 2010;
- (ii) the period for the laying of the Tin Ho Accounts and 2009 Tin Ho Accounts was extended to 31 March 2011;

Gayety

- (i) the 2009 Gayety Resolution be deemed to be the annual general meeting of Gayety for the years 2008 and 2009;
- (ii) the 2011 Gayety Resolution be deemed to be the annual general meeting of Gayety for the year 2010;
- (iii) the period for the laying of the 2007 Gayety Accounts was extended to 27 July 2009;
- (iv) the period for the laying of the 2009 Gayety Accounts was extended to 31 March 2011;

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Red Seasons

- (i) the resolution to approve the Red Seasons Accounts to be passed on or before 31 May 2011 be deemed to be the annual general meeting of the Company for the year 2011;
- (ii) the period for the laying of the Red Seasons Accounts was extended to 31 May 2011.

Upon the grant of such court orders and the laying of the relevant accounts within the extended time, Jubilant, Tin Ho, Gayety and Red Seasons will no longer be in breach of sections 111 and 122 of the Companies Ordinance. The resolution to approve the Red Seasons Accounts was passed on 31 May 2011.

The reasons for the above instances of non-compliance with the Companies Ordinance are set out below:

Jubilant, Tin Ho and Gayety

The then respective directors of Jubilant, Tin Ho and Gayety relied on accounting firm and companies providing secretarial service to handle the detailed accounting and secretarial affairs of the relevant company. Such accountants and secretarial service providers had never advised the relevant company of the statutory requirements under sections 111 and 122 of the Companies Ordinance. There was no reason for such directors to question the professional capability of the accountants and the secretarial service providers at the time. The oversight to comply with sections 111 and 122 of the Companies Ordinance was unintended and wholly inadvertent. There was no wilful default given the reliance on professional advice and services. Due to these reasons, sections 111 and 122 of the Companies Ordinance were not complied with as aforesaid.

Red Seasons

It had been the belief of the then directors of Red Seasons that it was only necessary for a company to prepare accounts if the company had to pay tax in Hong Kong. No tax return from the Inland Revenue Department had been received by Red Seasons until early March 2011. In these circumstances, such directors did not appreciate the need to prepare and lay accounts before the company's annual general meeting. As such, no accounting firm had been appointed to prepare the accounts at the time. The oversight to comply with sections 111 and 122 of the Companies Ordinance was unintended and inadvertent. Due to these reasons, sections 111 and 122 of the Companies Ordinance were not complied with as aforesaid.

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For non-compliance with section 111 of the Companies Ordinance, the maximum penalty is a fine of HK\$50,000 to which the company and every officer of the company in default shall be liable. For non-compliance with section 122 of the Companies Ordinance, the maximum penalty is a fine of HK\$300,000 and imprisonment for 12 months to which the director of the company who fails to take all reasonable steps to comply with the section shall be liable.

As advised by the Company's Hong Kong legal advisers, the likelihood of the Group being penalised for non-compliance with sections 111 and 122 of the Companies Ordinance as described above is low as the grant of the court order was made based on the court's acceptance of evidence submitted with the relevant applications for relief.

Mr. Wong KM and Ms. Lau LY, each a Controlling Shareholder, have undertaken to indemnify the Group, on a joint and several basis, against any costs, expenses, claims, liabilities, penalties, losses or damages incurred or suffered by the Group arising from or in connection with any non-compliance with the Companies Ordinance by any member of the Group prior to Listing.

With the grant of the court orders and the indemnity given by the Controlling Shareholders as described above, the potential impact on the Group's operation and financial position in relation to such non-compliance is minimal.

Based on information provided by the Company, save as disclosed above and in the sub-paragraph headed "Compliance" of the paragraph headed "Licences and approvals" in this section, the Company's Hong Kong legal advisers are of the view that the Group complied with applicable laws and regulations in all material aspects and obtained all requisite licences, permits and approvals for its business operations during the Track Record Period.