The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

30 June 2011

The Directors
Gayety Holdings Limited

Quam Capital Limited

Dear Sirs,

We report on the financial information (the "Financial Information") of Gayety Holdings Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the combined statements of financial position as at 31 December 2009 and 2010, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements for each of the years ended 31 December 2009 and 2010 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This Financial Information has been prepared by the directors of the Company and is set out in Sections I to V below for inclusion in Appendix I to the prospectus of the Company dated 30 June 2011 (the "Prospectus") in connection with the initial listing of shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 10 February 2011 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. Pursuant to a group reorganisation as described in Note 1.2 of Section II headed "Reorganisation" below, which was completed on 25 June 2011, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganisation").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1.2 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

No audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation other than the Reorganisation. The financial statements of the other companies now comprising the Group which are subject to statutory audit requirements were audited by the statutory auditors as set out in Note 1.2 of Section II below.

The directors of the Company have prepared the combined financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA pursuant to separate terms of engagement with the Company.

The directors of the Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with HKFRSs.

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon, and on the basis set out in Note 2.1 of Section II below.

Directors' responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with the basis of presentation set out in Note 2.1 of Section II below and in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Financial Information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the Financial Information gives, for the purpose of this report and presented on the basis set out in Note 2.1 of Section II below, a true and fair view of the combined state of affairs of the Group as at 31 December 2009 and 2010 and of the Group's combined results and cash flows for the Relevant Periods then ended.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 31 December 2009 and 2010 and for each of the years ended 31 December 2009 and 2010 presented on the basis set out in Note 2.1 below:

GAYETY HOLDINGS LIMITED

Combined Statements of Comprehensive Income

		Year ended 31 December	
	Notes	**2009**	**2010**
		HK$'000	*HK$'000*
Revenue	*6*	126,476	210,320
Other income	*6*	449	1,332
Cost of inventories consumed		(45,410)	(75,558)
Employee benefits expenses	*9*	(33,671)	(61,784)
Depreciation	*15*	(5,538)	(7,718)
Operating lease rental expenses		(10,107)	(22,101)
Utilities expenses		(8,299)	(15,702)
Other gains – net	*7*	35	564
Other operating expenses		(9,813)	(14,229)
Operating profit	*8*	14,122	15,124
Finance costs – net	*10*	(552)	(669)
Profit before income tax		13,570	14,455
Income tax expenses	*11*	(2,387)	(3,177)
Profit and total comprehensive income for the year		11,183	11,278
Attributable to:			
Owners of the Company		9,402	9,960
Non-controlling interests		1,781	1,318
		11,183	11,278
Dividends	*13*	2,390	1,536

Combined Statements of Financial Position

	Notes	As at 31 December 2009 HK$'000	2010 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*15*	15,050	21,938
Rental deposits	*17*	3,283	5,387
Prepayment for acquisition of property, plant and equipment		416	429
Deferred income tax assets	*23*	468	999
		19,217	28,753
Current assets			
Inventories	*16*	1,610	3,393
Trade receivables	*17*	488	459
Deposits, prepayments and other receivables	*17*	2,390	7,974
Income tax recoverable		–	281
Amount due from a related company	*27*	208	670
Amounts due from directors	*27*	12,207	2,604
Amount due from a non-controlling shareholder of a subsidiary	*28*	–	1,100
Financial assets at fair value through profit or loss	*18*	1,974	905
Pledged bank deposit	*19*	–	1,500
Cash and cash equivalents	*19*	13,802	16,968
		32,679	35,854
Total assets		51,896	64,607

	Notes	As at 31 December 2009 HK$'000	2010 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Capital reserve		486	486
Retained earnings		9,709	18,181
		10,195	18,667
Non-controlling interests		737	2,007
Total equity		10,932	20,674
LIABILITIES			
Non-current liabilities			
Provision for reinstatement costs	*24*	1,618	2,209
Deferred income tax liabilities	*23*	113	33
		1,731	2,242
Current liabilities			
Trade payables	*20*	7,504	9,769
Other payables, accruals and deposits received	*21*	7,328	12,684
Income tax payable		4,069	6,246
Amounts due to directors	*27*	3,395	12,988
Amounts due to non-controlling shareholders of a subsidiary	*28*	675	4
Bank borrowings	*22*	16,262	–
		39,233	41,691
Total liabilities		40,964	43,933
Total equity and liabilities		51,896	64,607
Net current liabilities		(6,554)	(5,837)
Total assets less current liabilities		12,663	22,916

Combined Statements of Changes in Equity

	Attributable to owners of the Company				
	Capital reserve	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2009	486	2,253	2,739	(600)	2,139
Profit and total comprehensive income for the year	–	9,402	9,402	1,781	11,183
Dividends *(Note 13)*	–	(1,946)	(1,946)	(444)	(2,390)
Balance at 31 December 2009 and 1 January 2010	486	9,709	10,195	737	10,932
Profit and total comprehensive income for the year	–	9,960	9,960	1,318	11,278
Dividends *(Note 13)*	–	(1,488)	(1,488)	(48)	(1,536)
Balance at 31 December 2010	486	18,181	18,667	2,007	20,674

Capital reserve of the Group represents the share capital of the companies now comprising the Group.

Combined Cash Flow Statements

	Notes	Year ended 31 December 2009 *HK$'000*	2010 *HK$'000*
Cash flows from operating activities			
Cash generated from operations	*25(a)*	6,621	27,891
Interest paid		(514)	(588)
Hong Kong profits tax paid		–	(1,892)
Net cash generated from operating activities		6,107	25,411
Cash flows from investing activities			
Interest received		1	–
Purchase of property, plant and equipment		(4,318)	(14,859)
Proceeds from disposal of property, plant and equipment	*25(b)*	42	1,503
Prepayment for acquisition of property, plant and equipment		(416)	(13)
Net cash used in investing activities		(4,691)	(13,369)
Cash flows from financing activities			
Proceeds from borrowings		12,940	–
Repayment of borrowings		(1,079)	(16,262)
Decrease in amounts due to related companies		(1,953)	–
Increase in amounts due to directors		2,387	9,593
Decrease in amount due to former immediate holding company of a subsidiary		(1,022)	–
Decrease in amounts due to non-controlling shareholders of a subsidiary		(73)	(671)
Dividends paid	*13*	(2,390)	(1,536)
Net cash generated from/(used in) financing activities		8,810	(8,876)
Net increase in cash and cash equivalents		10,226	3,166
Cash and cash equivalents at the beginning of year		3,576	13,802
Cash and cash equivalents at the end of year	*19*	13,802	16,968

II. NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION AND REORGANISATION

1.1 General information

The Company was incorporated in the Cayman Islands on 10 February 2011 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The address of the Company's registered office is the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in the operation of Chinese restaurants in Hong Kong (the "Chinese Restaurants Business").

1.2 Reorganisation

Prior to the Reorganisation, all operating entities of the Chinese Restaurants Business were majority owned by Mr. Wong Kwan Mo and his spouse, Ms. Lau Lan Ying (the "Ultimate Shareholders"). In preparation for the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Listing"), the Reorganisation was carried out to transfer the Chinese Restaurants Business and its related assets to the Company by the following steps:

(i) On 30 September 2010, the Ultimate Shareholders acquired the entire issued share capital of GR Holdings Limited ("GR Holdings"), a company incorporated in Samoa at a total consideration of US$2.

(ii) Pursuant to an agreement dated 3 June 2011 entered into among GR Holdings and the Ultimate Shareholders, GR Holdings acquired the entire equity interests of the operating entities of the Chinese Restaurants Business previously owned by the Ultimate Shareholders by issuance of shares of GR Holdings to the Ultimate Shareholders. Since then, GR Holdings has become the intermediate holding company of the operating entities of the Chinese Restaurants Business.

(iii) On 10 February 2011, the Company was incorporated. Pursuant to an agreement dated 25 June 2011 entered into among the Company, the Ultimate Shareholders and KMW Investments Limited ("KMW"), a company wholly-owned by the Ultimate Shareholders, the Company acquired the entire issued share capital of GR Holdings which was satisfied by the issuance of a total of 2 shares, credited as fully paid, by KMW to the Ultimate Shareholders and by the issuance of 37,999,999 Shares, credited as fully paid, by the Company to KMW, and the Company became the holding company of the companies now comprising the Group.

As at the date of this report, the Company has direct and indirect interest in the following subsidiaries, all of which are limited liability companies in their respective place of incorporation:

Name	Country/ place of incorporation and operation	Date of incorporation	Nominal value of issued and fully paid share capital	Attributable equity interest Directly held	Indirectly held	Principal activities	Notes
GR Holdings Limited	Samoa	30 September 2010	100 ordinary shares of US$1 each	100%	–	Investment holding	(i)
Gayety Limited	Hong Kong	19 August 2006	1 ordinary share of HK$1	–	100%	Restaurant operations and licence holding	(ii)
Jubilant Company Limited	Hong Kong	8 August 2006	1 ordinary share of HK$1	–	100%	Central procurement operations	(iii)

Name	Country/ place of incorporation and operation	Date of incorporation	Nominal value of issued and fully paid share capital	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities	Notes
Red Seasons Limited	Hong Kong	13 August 2009	2 ordinary shares of HK$1 each	–	100%	Restaurant operations and licence holding	(iv)
Red Seasons Corporation Limited	Hong Kong	15 December 2009	2 ordinary shares of HK$1 each	–	100%	Restaurant operations and licence holding	(v)
Red Seasons Catering Limited	Hong Kong	26 January 2010	2 ordinary shares of HK$1 each	–	100%	Restaurant operations and licence holding	(vi)
Sencas Limited	Hong Kong	11 September 2006	10,000 ordinary shares of HK$1 each	–	60%	Provision of staff training for the Group	(vii)
Tin Ho Restaurant Limited	Hong Kong	14 December 1979	800 ordinary shares of HK$1,000 each	–	60%	Restaurant operations and licence holding	(vii)

Notes:

(i) No statutory financial statements have been issued for this subsidiary as there is no local requirement for a statutory audit.

(ii) The statutory financial statements of this subsidiary for the years ended 31 December 2009 and 2010 were audited by P.L. Au & Co CPA (Practising) and PricewaterhouseCoopers respectively.

(iii) The statutory financial statements of this subsidiary for the years ended 31 December 2009 and 2010 were audited by Mainfaith CPA Limited and PricewaterhouseCoopers respectively.

(iv) The statutory financial statements of this subsidiary from 13 August 2009 (date of incorporation) to 31 December 2010 were audited by PricewaterhouseCoopers.

(v) The statutory financial statements of this subsidiary from 15 December 2009 (date of incorporation) to 31 December 2010 were audited by PricewaterhouseCoopers.

(vi) The statutory financial statements of this subsidiary from 26 January 2010 (date of incorporation) to 31 December 2010 were audited by PricewaterhouseCoopers.

(vii) The statutory financial statements of these subsidiaries for the years ended 31 December 2009 and 2010 were audited by Mainfaith CPA Limited and PricewaterhouseCoopers respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied during the Relevant Periods, unless otherwise stated.

2.1 Basis of preparation

For the purposes of this report, the combined financial information of the Group have been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the HKICPA. The combined statements of financial position, combined statements of comprehensive income, combined cash flow statements and combined statements of changes in equity of the Group for the Relevant Periods have been prepared using the financial information of the companies engaged in the Chinese Restaurants Business.

The net assets and results of the Group were combined using the existing book values from the perspective of the Ultimate Shareholders. The acquisition of the companies engaged in the Chinese Restaurants Business (the "Chinese Restaurants Subsidiaries") by GR Holdings Limited and the acquisition of GR Holdings Limited by the Company are not business combination as the Company and GR Holdings Limited have no operation and does not constitute a business. These transactions constitute a reorganisation of the Chinese Restaurants Subsidiaries which has not resulted in any changes in the substance of the Chinese Restaurants Subsidiaries. The combined financial statements of the Company are presented using the carrying values of the assets and liabilities from the perspective of the Ultimate Shareholders.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated on combination.

The Financial Information set out in this report has been prepared in accordance with the HKFRSs under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 4 below.

As at 31 December 2010, the Group had net current liabilities of approximately HK$5,837,000. The directors believe that the Group will have sufficient cash resources to satisfy its future working capital and other fund requirements from its operating cash flows. In addition, the directors have also undertaken not to require repayment of the amounts due to them by the Group amounting to approximately HK$12,988,000 as at 31 December 2010 until the Group is financially capable of doing so. Accordingly, the directors consider that it is appropriate to prepare the Underlying Financial Statements and the Financial Information on a going concern basis.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following new or revised standards, amendments and interpretations to existing standards have been published but are not yet effective for the year ended 31 December 2010 and which the Group has not early adopted:

		Effective for accounting periods beginning on or after
HKAS 24 (Revised)	Related Party Disclosures	1 January 2011
HKFRS 9	Financial Instruments	1 January 2013
HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement	1 January 2011
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

Improvements to HKFRS – Amendments to:

HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards	1 July 2010
HKFRS 7	Financial Instruments: Disclosures	1 July 2011
HKAS 12	Income Taxes	1 January 2012
HKAS 32	Financial Instruments: Presentation	1 February 2010
HKAS 34	Interim Financial Reporting	1 January 2011

The Group will apply these new standards and new interpretations in the period of initial application. It is expected that the adoption of these revised standards will not have a significant impact on the Group's results of operations and its financial position.

2.2 Consolidation

(a) Subsidiaries

The combined financial statements include the financial statements of the Company and all its subsidiaries made up to the respective year end dates during the Relevant Periods. Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combination by the Group. The consideration for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity instruments issued. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. When a business combination is achieved in stages, the acquirer should remeasure its previously held interest in the acquiree at its fair value at the date control is obtained, recognising the fair value changes in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the underlying Financial Statements to ensure consistency with the policies adopted by the Group.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers (the "CODM"). The CODM, who are responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's executive directors that makes strategic decisions.

2.4 Foreign currency transaction

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in HK dollars ("HK$"), which is also the Company's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined. Translation differences arising on translation of non-monetary assets and liabilities, such as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss in the combined statement of comprehensive income.

2.5 Property, plant and equipment

Property, plant and equipment are stated in the combined statement of financial position at historical cost less accumulated depreciation and impairment losses (see Note 2.6). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the carrying amount of an item of property, plant and equipment or recognised as a separate item of property, plant and equipment, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance and overhaul costs, are recognised in the combined statement of comprehensive income as an expense in the period in which they are incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal within 'Other gains – net' in the combined statement of comprehensive income.

Depreciation on property, plant and equipment is calculated to write off the cost of items of property, plant and equipment using the straight-line method to their residual values over their estimated useful lives as follows:

Land and building	Shorter of 40 years and the unexpired lease term
Leasehold improvements	Shorter of 5 years and the unexpired lease term
Air-conditioning	Shorter of 5 years and the unexpired lease term
Equipment and kitchen utensils	5 years
Furniture and fixtures	5 years
Motor vehicles	5 years

The property, plant and equipment's residual value and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The property, plant and equipment's carrying amount is written down immediately to its recoverable amount if the property, plant and equipment's carrying amount is greater than its estimated recoverable amount (see Note 2.6).

2.6 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Financial assets

(a) Classification

The Group classifies its financial assets as financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets designated as such. A financial asset is classified in this category if it is managed and its performance is evaluated on a fair value basis in accordance with the Group's investment strategy. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade receivables', 'deposits and other receivables', 'amount due from a related company', 'amounts due from directors', 'amount due from a non-controlling shareholder of a subsidiary', 'pledged bank deposit' and 'cash and cash equivalents' in the combined statement of financial position (see Notes 2.10 and 2.11).

(b) Recognition and measurement

Regular way of purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the combined statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the combined statement of comprehensive income within 'Other gains – net' in the period in which they arise.

2.8 Impairment of financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is an objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is an objective evidence of an impairment loss include:

– significant financial difficulty of the issuer or obligor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

– it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

– the disappearance of an active market for that financial asset because of financial difficulties; or

– observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in combined statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in combined statement of comprehensive income.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in-first-out cost method. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

2.11 Cash and cash equivalents

Cash and cash equivalents includes deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.12 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

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

2.14 Current and deferred income tax

The tax expense for a year comprises current and deferred income tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the income tax is recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the year end dates during the Relevant Periods and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.15 Employee benefits

(a) Pension obligation

The Group operates a defined contribution plan, the mandatory provident fund scheme ("MPF") in Hong Kong, the assets of which are generally held in separate trustee-administered funds.

The Group's contributions to the defined contribution plan are charged to combined statement of comprehensive income in the year incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The Group has no further payment obligations once the contributions have been paid.

(b) Employee leave entitlements

Employee entitlement to annual leave or other statutory leave is recognised when they are accrued to employees. A provision is made for the estimated liability for paid leave as a result of services rendered by employees up to the date of statement of financial position.

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

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the Group has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.16 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Revenue from restaurant operation

Revenue is recognised when the related catering services are rendered to customers.

(b) Sub-letting income

Sub-letting income is recognised on a straight-line basis over the term of the lease.

(c) Management fee income

Management fee income is recognised when services are rendered.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

2.18 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.19 Dividend distribution

Dividend distribution to the shareholders of the Company and its subsidiaries is recognised as a liability in the Financial Information in the period in which the dividends are approved by the shareholders of the respective companies.

2.20 Financial guarantee

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised in the Financial Information at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is recognised as other operating expenses.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Cash flow interest rate risk

The Group has no significant interest-bearing assets other than bank deposits. Management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank deposits are not expected to change significantly.

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by bank deposits held at variable rates. The Group has not hedged its cash flow interest rate risks. The interest rate and terms of repayments of borrowings are disclosed in Note 22.

As at 31 December 2009 and 2010, if the interest rate on all borrowings had been 100 basis points higher/lower with all other variables held constant, the Group's profit after tax for the year would have decreased/increased by approximately HK$88,000 and nil respectively, mainly as a result of higher/lower interest expense on borrowings with floating interest rates.

(ii) Price risk

The Group is exposed to equity securities price risk because the investments held by the Group are classified on the combined statement of financial position as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, investment decisions are made in accordance with the limits set by the Group.

As at 31 December 2009 and 2010, if the market price on the Group's financial assets at fair value through profit or loss had been 5% higher/lower with all other variables held constant, the Group's profit after tax for the year would have increased/decreased by approximately HK$99,000 and HK$45,000 respectively, mainly as a result of the resulting fair value gain/loss on these financial assets.

(b) Credit risk

The Group's credit risk is primarily attributable to deposits with banks, rental deposits, trade and other receivables, amounts due from a related company, directors and a non-controlling shareholder of a subsidiary. Management has policies in place and exposures to these credit risks are monitored on an ongoing basis.

The majority of the Group's revenue is on cash basis therefore there is no significant concentration of credit risk.

Amounts due from a related company, directors and a non-controlling shareholder of a subsidiary and other receivables are continuously monitored by assessing the credit quality of the counterparties, taking into account its financial position, past experience and other factors. Where necessary, impairment loss is made for estimated irrecoverable amounts. As at 31 December 2009 and 2010, the amounts due from a related company, directors and a non-controlling shareholder of a subsidiary and other receivables are fully performing.

Investments are executed with financial institutions or investment counterparties with sound credit ratings and the Group does not expect any significant counterparty risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined statement of financial position.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet their liquidity requirements in the short and longer term. Management believes that there is no significant liquidity risk as the Group is able to generate net cash from operating activities.

The following table details the remaining contractual maturities at the year end dates during the Relevant Periods of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the year end dates during the Relevant Periods) and the earliest date the Group is required to pay.

Specifically, for bank borrowings which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group is required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

	Within 1 year or on demand *HK$'000*
At 31 December 2009	
Trade payables	7,504
Other payables, accruals and deposits received	7,328
Amounts due to directors	3,395
Amounts due to non-controlling shareholders of a subsidiary	675
Bank borrowings	16,866
Total	35,768
At 31 December 2010	
Trade payables	9,769
Other payables, accruals and deposits received	12,684
Amounts due to directors	12,988
Amounts due to non-controlling shareholders of a subsidiary	4
Total	35,445

3.2 Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, to support the Group's stability and growth, to earn a margin commensurate with the level of business and market risks in the Group's operations and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bank borrowings and amounts due to directors as shown in the combined statement of financial position) less cash and cash equivalents. Total capital is calculated as 'Equity' as shown in the combined statement of financial position plus net debt.

The Group's strategy, which was unchanged during the Relevant Periods, was to lower the gearing ratio to an acceptable level. The gearing ratio of the Group as at 31 December 2009 is as follows:

	As at 31 December 2009 *HK$'000*
Bank borrowings *(Note 22)*	16,262
Amounts due to directors *(Note 27)*	3,395
Less: cash and cash equivalents *(Note 19)*	(13,802)
Net debt	5,855
Total equity	10,932
Total capital	16,787
Gearing ratio	34.9%

Gearing ratio is not applicable to the Group as at 31 December 2010 as the Group's cash and cash equivalents is larger than its amounts due to directors as at 31 December 2010.

3.3 Fair value estimation

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009 and 2010.

The financial instruments measured at fair value are disclosed by the following measurement hierarchy:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

– Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments that are not traded in an active market, which primarily represented the investment funds (Note 18), is determined by using valuation techniques using observable market data. The fair value measurement for such investment funds are included in level 2.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Useful lives of property, plant and equipment

The Group has significant investments in property, plant and equipment. The Group is required to estimate the useful lives of property, plant and equipment in order to ascertain the amount of depreciation charges for each reporting period.

Useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Group's strategies. The Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancement in technology. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

(b) Impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may be not recoverable. The recoverable amounts have been determined based on fair value less costs to sell calculations or value-in-use valuations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of its operations.

(c) Income tax

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

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(d) Provision for reinstatement costs

Provision for reinstatement costs is estimated and reassessed at the end of each reporting period with reference to the latest available quotation from independent contractors. Estimation based on current market information may vary over time and could differ from the actual reinstatement cost upon closures or relocation of existing premises occupied by the Group.

5 SEGMENT INFORMATION

The CODM have been identified collectively as the executive directors of the Company. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. The CODM have determined the operating segments based on these reports.

The Group is principally engaged in the operations of a chain of Chinese restaurants in Hong Kong. Information reported to the CODM for the purpose of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified one operating segment – operation of Chinese restaurants in Hong Kong, and segment disclosures are not presented.

6 REVENUE AND OTHER INCOME

	Year ended 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Revenue		
Chinese restaurants operations	126,476	210,320
Other income		
Sub-letting income	300	600
Management fee income from a related company *(Note 27)*	16	670
Sundry income	133	62
	449	1,332

7 OTHER GAINS – NET

	Year ended 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Gain/(loss) on disposal of financial assets at fair value through profit or loss	44	(96)
Fair value gain/(loss) on financial assets at fair value through profit or loss	1	(80)
(Loss)/gain on disposal of property, plant and equipment	(10)	740
	35	564

8 OPERATING PROFIT

	Year ended 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Operating profit is stated after charging the following:		
Kitchen consumables	2,962	3,593
Cleaning expenses	928	1,424
Auditors' remuneration	41	204

9 EMPLOYEE BENEFITS EXPENSES

	Year ended 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Salaries, wages and allowances	30,831	56,934
Pension costs – defined contribution plans	1,394	2,600
Provision for unutilised annual leave	235	278
Other employee benefits	1,211	1,972
	33,671	61,784

10 FINANCE COSTS – NET

	Year ended 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Finance costs:		
– Bank loans	(423)	(478)
– Bank overdrafts	(91)	(110)
– Unwinding of discount of provision for reinstatement cost	(39)	(81)
	(553)	(669)
Finance income:		
– Cash at banks	1	–
Finance costs – net	(552)	(669)

11 INCOME TAX EXPENSES

	Year ended 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Current income tax	2,886	3,788
Deferred income tax *(Note 23)*	(499)	(611)
	2,387	3,177

Hong Kong profits tax has been provided at the rate of 16.5% for the years ended 31 December 2009 and 2010 on the estimated assessable profits for each of the Relevant Periods.

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	Year ended 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Profit before income tax	13,570	14,455
Tax calculated at a tax rate of 16.5%	2,239	2,385
Income not subject to tax	(4)	(121)
Expenses not deductible for tax purposes	152	183
Tax losses not recognised	–	730
Income tax expenses	2,387	3,177

12 DIRECTORS' AND SENIOR EXECUTIVE'S EMOLUMENTS

(a) Directors' emoluments

None of the directors received any fees or emoluments in respect of their services to the Group during the Relevant Periods.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the Relevant Periods did not include any director for each of the years ended 31 December 2009 and 2010. The emoluments of the five highest paid individuals are reflected in the analysis presented below.

	Year ended 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Salaries, wages and allowances	1,328	1,365
Pension costs – defined contributions plans	74	58
	1,402	1,423

The emoluments fell within the following bands:

	Number of individuals Year ended 31 December	
	2009	**2010**
HK$ Nil to HK$1,000,000	5	5

13 DIVIDENDS

The following dividends were declared and paid by the companies now comprising the Group to their then equity owners during the Relevant Periods:

	Year ended 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Dividends	2,390	1,536

The rates of dividends and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

14 EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this Financial Information, is not considered meaningful due to the Reorganisation and the presentation of the results for the years ended 31 December 2009 and 2010 on a combined basis as set out in Note 2.1.

15 PROPERTY, PLANT AND EQUIPMENT

	Land and building *HK$'000*	Leasehold improvements *HK$'000*	Air-conditioning *HK$'000*	Equipment and kitchen utensils *HK$'000*	Furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
At 1 January 2009							
Cost	790	11,391	4,037	3,715	5,641	79	25,653
Accumulated depreciation	(39)	(4,738)	(1,504)	(1,403)	(2,141)	(26)	(9,851)
Net book amount	751	6,653	2,533	2,312	3,500	53	15,802
Year ended 31 December 2009							
Opening net book amount	751	6,653	2,533	2,312	3,500	53	15,802
Additions	–	2,647	642	769	718	62	4,838
Disposals	–	–	–	–	(52)	–	(52)
Depreciation charge	(20)	(2,661)	(853)	(796)	(1,185)	(23)	(5,538)
Closing net book amount	731	6,639	2,322	2,285	2,981	92	15,050
At 31 December 2009							
Cost	790	14,038	4,679	4,484	6,273	141	30,405
Accumulated depreciation	(59)	(7,399)	(2,357)	(2,199)	(3,292)	(49)	(15,355)
Net book amount	731	6,639	2,322	2,285	2,981	92	15,050
Year ended 31 December 2010							
Opening net book amount	731	6,639	2,322	2,285	2,981	92	15,050
Additions	–	8,451	1,451	3,666	1,161	640	15,369
Disposals	(711)	–	–	(15)	–	(37)	(763)
Depreciation charge	(20)	(3,807)	(1,081)	(1,351)	(1,387)	(72)	(7,718)
Closing net book amount	–	11,283	2,692	4,585	2,755	623	21,938
At 31 December 2010							
Cost	–	22,489	6,130	8,135	7,434	738	44,926
Accumulated depreciation	–	(11,206)	(3,438)	(3,550)	(4,679)	(115)	(22,988)
Net book amount	–	11,283	2,692	4,585	2,755	623	21,938

Land and building with net book amount of HK$731,000, leasehold improvements with net book amount of HK$962,000 and air-conditioning with net book amount of HK$598,000 were pledged to banks to secure general banking facilities granted to the Group as at 31 December 2009 (Note 22).

16 INVENTORIES

	As at 31 December	
	2009	2010
	HK$'000	*HK$'000*
Food and beverages	1,221	2,813
Consumables	389	580
	1,610	3,393

As at 31 December 2009 and 2010, no inventory was stated at net realisable value.

17 TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2009	2010
	HK$'000	*HK$'000*
Rental deposits	3,283	5,387
Trade receivables – third parties	488	459
Utilities and other deposits paid	1,048	2,670
Prepayment for professional services	–	3,668
Other prepayments	955	1,336
Other receivables	387	300
Deposits, prepayments and other receivables	2,390	7,974
	2,878	8,433

The carrying amounts of trade receivables, deposits and other receivables approximate their fair values.

The aging analysis of these trade receivables is as follows:

	As at 31 December	
	2009	2010
	HK$'000	*HK$'000*
Current to 30 days	349	435
31 to 60 days	9	2
61 to 90 days	27	4
More than 90 days	103	18
	488	459

The Group's sales are mainly conducted in cash or by credit cards. The trade receivables included in the above aging analysis are considered not impaired as there is no recent history of default. As at 31 December 2009 and 2010, no trade receivables were past due or impaired. No provision for impairment of trade receivables was made as at 31 December 2009 and 2010.

The carrying amounts of the Group's trade receivables, deposits and other receivables are denominated in Hong Kong dollars.

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Unlisted securities	1,974	905

Financial assets at fair value through profit or loss represent investment funds invested in listed equity instruments outside Hong Kong. The fair value of the investment funds is based on the quotation from banks.

Changes in fair values of these investments are recorded in 'other gains – net' in the combined statements of comprehensive income.

19 CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSIT

	As at 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Cash on hand	989	697
Cash at banks	12,813	16,271
Cash and cash equivalents	13,802	16,968
Pledged bank deposit	–	1,500

The carrying amounts of the Group's cash on hand, cash at banks and pledged bank deposit are denominated in Hong Kong dollars.

Cash at banks and pledged bank deposit earn interest at floating rates based on daily bank deposit rates.

The pledged bank deposit as at 31 December 2010 was pledged to a bank for a banking facility granted to the Group (Note 22).

20 TRADE PAYABLES

	As at 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Trade payables – third parties	6,448	8,304
Trade payables – related parties *(Note 27)*	1,056	1,465
	7,504	9,769

The aging analysis of trade payables based on invoice dates is as follows:

	As at 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Current to 30 days	5,114	6,889
31 to 60 days	2,297	2,879
61 to 90 days	–	1
More than 90 days	93	–
	7,504	9,769

Payment terms granted by suppliers are mostly 45 days after the end of the month in which the relevant purchases are made.

The carrying amounts of the Group's trade payables are denominated in Hong Kong dollars.

21 OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	As at 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Accrued salaries and wages	3,304	5,351
Accrued rental expenses	677	2,489
Deposits received	462	381
Other accruals	1,422	2,601
Other payables	1,463	1,862
	7,328	12,684

The carrying amounts of the Group's deposits received and other payables are denominated in Hong Kong dollars.

22 BANK BORROWINGS

	As at 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Bank borrowings due for repayment within one year	3,096	–
Bank borrowings due for repayment after one year which contain a repayment on demand clause	13,166	–
	16,262	–

The Group's borrowings as at 31 December 2009 were all denominated in Hong Kong dollars.

The weighted average effective interest rates at each of the year end dates of the Relevant Periods are as follows:

	As at 31 December	
	2009	**2010**
Bank borrowings	3.8%	–

As at 31 December 2009 and 2010, the Group had aggregate banking facilities of approximately HK$21,262,000 and HK$6,500,000 for loans, overdrafts and other facilities. Unused facilities as at the same dates amounted to approximately HK$5,000,000 and HK$5,000,000 respectively. These facilities were secured by:

(a) The Group's land and building with net book amount of HK$731,000, leasehold improvements with net book amount of HK$962,000 and air-conditioning with net book amount of HK$598,000 as at 31 December 2009 (Note 15);

(b) The Group's bank deposit amounting to HK$1,500,000 as at 31 December 2010 (Note 19);

(c) Personal guarantees given by the Ultimate Shareholders as at 31 December 2009 and 2010 (Note 27);

(d) Guarantee given by a company controlled by the Ultimate Shareholders as at 31 December 2009 and 2010 (Note 27);

(e) Certain properties of the Ultimate Shareholders as at 31 December 2009 (Note 27);

(f) Certain properties held by companies controlled by the Ultimate Shareholders as at 31 December 2009 and 2010 (Note 27); and

(g) Investment funds held by a company controlled by the Ultimate Shareholders as at 31 December 2009.

The fair values of the Group's borrowings approximated their carrying amounts as at 31 December 2009 for the reason that the impact of discounting was not significant or the borrowings carried floating rate interest.

23 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	Year ended 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Deferred income tax assets to be recovered after more than 12 months	468	999
Deferred income tax liabilities to be recovered after more than 12 months	(113)	(33)
	355	966

The gross movement on the deferred income tax (liabilities)/assets is as follows:

	Year ended 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
At 1 January	(144)	355
Credited to combined statements of comprehensive income *(Note 11)*	499	611
At 31 December	355	966

The movements in deferred income tax assets and liabilities during the Relevant Periods, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets	**Tax depreciation**	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2009	71	28	99
Credited/(charged) to combined statements of comprehensive income	443	(28)	415
At 31 December 2009 and 1 January 2010	514	–	514
Credited to combined statements of comprehensive income	527	398	925
At 31 December 2010	1,041	398	1,439

Deferred income tax liabilities	**Tax depreciation**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2009	(79)	(164)	(243)
(Charged)/credited to combined statements of comprehensive income	(34)	118	84
At 31 December 2009 and 1 January 2010	(113)	(46)	(159)
Charged to combined statements of comprehensive income	(312)	(2)	(314)
At 31 December 2010	(425)	(48)	(473)

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately HK$730,000 as at 31 December 2010 in respect of losses amounting to approximately HK$4,425,000 that can be carried forward against future taxable income. These tax losses do not have an expiry date.

24 PROVISION FOR REINSTATEMENT COSTS

	Year ended 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
At 1 January	1,059	1,618
Additional provision	520	510
Unwinding of discount of provision *(Note 10)*	39	81
At 31 December	1,618	2,209

Provision for reinstatement costs is recognised for the present value of costs to be incurred for the reinstatement of the properties used by the Group for its operations upon expiration of the relevant leases.

25 NOTES TO THE COMBINED CASH FLOW STATEMENTS

(a) Cash generated from operations

	Year ended 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Profit before income tax	13,570	14,455
Adjustments for:		
– Depreciation	5,538	7,718
– Loss/(gain) on disposal of property, plant and equipment *(Note (b))*	10	(740)
– Finance costs	553	669
– Finance income	(1)	–
– (Gain)/loss on disposal of financial assets at fair value through profit and loss	(44)	96
– Fair value (gain)/loss on financial assets at fair value through profit and loss	(1)	80
Operating profit before changes in working capital	19,625	22,278
Changes in working capital:		
– Inventories	525	(1,783)
– Trade receivables	(377)	29
– Deposits, prepayments and other receivables	(3,132)	(7,688)
– Amount due from a related company	(208)	(462)
– Amounts due from directors	(12,058)	9,603
– Amount due from a non-controlling shareholder of a subsidiary	–	(1,100)
– Financial assets at fair value through profit or loss	(1,929)	893
– Pledged bank deposit	–	(1,500)
– Trade payables	1,570	2,265
– Other payables, accruals and deposits received	2,605	5,356
Cash generated from operations	6,621	27,891

(b) Proceeds from disposal of property, plant and equipment

In the combined cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Net book amount *(Note 15)*	52	763
(Loss)/gain on disposal of property, plant and equipment	(10)	740
Proceeds from disposal of property, plant and equipment	42	1,503

(c) Major non-cash transactions

Additions of property, plant and equipment include reinstatement costs amounting to HK$520,000 and HK$510,000 for the years ended 31 December 2009 and 2010 respectively (Note 24), which do not involve any cash payment.

26 COMMITMENTS

(a) Capital commitments

Capital commitments in respect of property, plant and equipment as at the year end dates during the Relevant Periods are as follows:

	As at 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Contracted but not provided for	648	241
Authorised but not contracted for	3,277	18,000
	3,925	18,241

(b) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

	As at 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
No later than 1 year	13,421	21,372
Later than 1 year and no later than 5 years	42,788	70,360
Over 5 years	15,820	10,800
	72,029	102,532

(c) Minimum operating lease payments receivable

Minimum lease payments under non-cancellable operating leases in respect of a property are receivable as follows:

	As at 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
No later than 1 year	600	300
Later than 1 year and no later than 5 years	300	–
	900	300

27 RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Transactions between the companies comprising the Group have been eliminated on combination and are not disclosed. Details of transactions between the Group and other related parties are disclosed below.

The Group had the following significant transactions with its related parties during the Relevant Periods:

	Year ended 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Continuing transactions		
Rental expenses to		
– a related company owned by the Ultimate Shareholders *(Note 1)*	–	2,916
Purchases of goods from		
– related companies owned by the Ultimate Shareholders *(Note 2)*	4,463	4,329

	Year ended 31 December	
	2009	**2010**
	HK$'000	*HK$'000*
Discontinued transactions		
Purchases of goods from		
– related companies owned by the Ultimate Shareholders	–	8,691
Management fee income from		
– a related company owned by the Ultimate Shareholders *(Note 3)*	16	670
Sale of a property to		
– a related company owned by the Ultimate Shareholders *(Note 4)*	–	1,450

Note:

(1) Rental expenses to a related company were charged according to the terms of the rental agreement entered into between the parties.

(2) Purchases of goods from related companies were made on a cost basis.

(3) Management fee income from a related company was charged at terms mutually agreed by the parties.

(4) Sale of a property to a related company was charged according to the terms of the sale and purchase agreement entered into between the parties.

(b) Balances with related parties

The Group had the following balances with related parties:

	As at 31 December 2009 HK$'000	2010 HK$'000
Non-trade receivables from related parties:		
– a related company controlled by the Ultimate Shareholders	208	670
– Mr. Wong Kwan Mo	–	2,104
– Ms. Lau Lan Ying	12,207	500
Trade payables to related parties		
– related companies owned by the Ultimate Shareholders *(Note 20)*	1,056	1,465
Other payables to related parties		
– Mr. Wong Kwan Mo	3,084	64
– Ms. Lau Lan Ying	311	12,924

Receivables and payables from/to related companies and directors are unsecured, interest free and are repayable on demand. Receivables from related parties are neither past due nor impaired. The balances with related parties are denominated in Hong Kong dollars.

The balances advanced to directors during the Relevant Periods are as follows:

Name of director	At 1 January 2009 *HK$'000*	At 31 December 2009 and 1 January 2010 *HK$'000*	At 31 December 2010 *HK$'000*	Maximum amount outstanding during the year ended 31 December 2009 *HK$'000*	Maximum amount outstanding during the year ended 31 December 2010 *HK$'000*
Mr. Wong Kwan Mo	149	–	2,104	160	2,737
Ms. Lau Lan Ying	–	12,207	500	20,644	27,051
	149	12,207	2,604	20,804	29,788

The balances advanced to a related company owned by the Ultimate Shareholders during the Relevant Periods are as follows:

	At 1 January 2009	At 31 December 2009 and 1 January 2010	At 31 December 2010	Maximum amount outstanding during the year ended 31 December 2009	Maximum amount outstanding during the year ended 31 December 2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
A related company owned by the Ultimate Shareholders	–	208	670	208	670

All non-trade balances due from/to related parties as at 31 December 2010 will be fully settled before Listing.

(c) Other arrangements with related parties

The Group had the following arrangements with related parties during the Relevant Periods:

(1) Banking facilities available to the Group were:

(a) guaranteed by the Ultimate Shareholders as at 31 December 2009 and 2010;

(b) guaranteed by a company controlled by the Ultimate Shareholders as at 31 December 2009 and 2010;

(c) secured by certain properties of the Ultimate Shareholders as at 31 December 2009;

(d) secured by certain properties held by companies controlled by the Ultimate Shareholders as at 31 December 2009 and 2010;

(e) secured by certain investment funds held by a company controlled by the Ultimate Shareholders as at 31 December 2009; and

(f) secured by a bank deposit of Ms. Lau Lan Ying as at 31 December 2010.

(2) Bank borrowings of companies controlled by the Ultimate Shareholders amounting to approximately HK$36,902,000 and HK$35,829,000 as at 31 December 2009 and 2010 respectively were guaranteed by the Group.

All such arrangements with related parties have been terminated in February 2011.

28 BALANCES WITH NON-CONTROLLING SHAREHOLDERS

	As at 31 December	
	2009	2010
	HK$'000	*HK$'000*
Amount due from a non-controlling shareholder of a subsidiary	–	1,100
Amounts due to non-controlling shareholders of a subsidiary	675	4

Amounts due from/to non-controlling shareholders of a subsidiary are unsecured, interest free and are repayable on demand. The amount due from a non-controlling shareholder of the subsidiary is neither past due nor impaired. The balances with non-controlling shareholders of the subsidiary are denominated in Hong Kong dollars.

All balances due from/to non-controlling shareholders of subsidiaries will be fully settled before Listing.

III. FINANCIAL INFORMATION OF THE COMPANY

The Company was incorporated on 10 February 2011 with an initial authorised share capital of HK$380,000 divided into 38,000,000 ordinary shares with par value of HK$0.01 each. On the date of incorporation, 1 ordinary share was subscribed by a nominee company, which was then transferred to KMW on the same date. The Company had not involved in any significant business transactions since its date of incorporation to the date of this report.

IV. SUBSEQUENT EVENT

On 8 March 2011 and 11 May 2011, Gayety Limited declared interim dividends amounting to HK$16,000,000 and HK$7,000,000, respectively, to its shareholder.

V. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2010. Save as disclosed elsewhere in this report, no dividend has been declared, made or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2010.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants