# Gayety Holdings Limited

# 喜尚控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8179

# PLACING

*Sponsor*

Quam CAPITAL 華富嘉洛企業融資

*Bookrunner and Lead Manager*

Quam Securities & Futures 華富嘉洛證券期貨

***If you are in any doubt** about any of the contents of this prospectus, you should obtain independent professional advice.*

# GAYETY HOLDINGS LIMITED
# 喜尚控股有限公司

*(incorporated in the Cayman Islands with limited liability)*

## LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING

| | | |
|---|---|---|
| **Number of Placing Shares** | **:** | **80,000,000 Shares** |
| **Placing Price** | **:** | **Not more than HK$1.00 per Placing Share and expected to be not less than HK$0.60 per Placing Share, plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)** |
| **Nominal Value** | **:** | **HK$0.01 per Share** |
| **Stock Code** | **:** | **8179** |

**Sponsor**

Quam CAPITAL 華富嘉洛企業融資

**Bookrunner and Lead Manager**

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**Co-Lead Managers**

**Convoy Investment Services Limited** **Goldin Equities Limited**



The Placing Price is expected to be determined by agreement between the Lead Manager (for itself and on behalf of the Underwriters) and the Company on the Price Determination Date, which is expected to be on or before Tuesday, 5 July 2011 (Hong Kong time) or such later date may be agreed by the Lead Manager (for itself and on behalf of the Underwriters) and the Company. If, for any reason, the Lead Manager (for itself and on behalf of the Underwriters) and the Company are unable to agree on the Placing Price on or before Tuesday, 5 July 2011 (Hong Kong time) or such later date may be agreed by the Lead Manager (for itself and on behalf of the Underwriters) and the Company, the Placing will not proceed and will lapse. The Placing Price will be not more than HK$1.00 and is currently expected to be not less than HK$0.60, unless otherwise announced.

The Lead Manager (for itself and on behalf of the Underwriters) may, with the Company's consent, reduce the indicative Placing Price range stated in this prospectus at any time prior to the Price Determination Date. In such a case, notice of such reduction will be published on the Company's website (**www.gayety.com.hk**) and the GEM Website as soon as practicable but in any event not later than the Price Determination Date. Further details are set out in the section headed "Structure and Conditions of the Placing" in this prospectus.

Prior to making any investment decision, prospective investors should consider carefully all the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Prospective investors of the Placing Shares should note that the obligations of the Underwriters under the Underwriting Agreement are subject to termination by the Lead Manager (for itself and on behalf of the Underwriters) upon the occurrence of any of the events set forth under the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of these termination provisions are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

30 June 2011

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

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

| | |
|---|---|
| | *(Notes 1 and 4)* |
| Expected Price Determination Date *(Note 2)* | Tuesday, 5 July 2011 |
| Announcement of the Placing Price and the indication of level of interest in the Placing to be published on the GEM Website and the Company's website (**www.gayety.com.hk**) on or before | Thursday, 7 July 2011 |
| Allotment of the Placing Shares to placees on or before | Thursday, 7 July 2011 |
| Deposit of share certificates for the Placing Shares into CCASS on or before *(Note 3)* | Thursday, 7 July 2011 |
| Dealings in Shares on GEM expected to commence at 9:00 a.m. on | Friday, 8 July 2011 |

*Notes:*

1. All times and dates refer to Hong Kong times and dates.

2. The Placing Price is expected to be determined on Tuesday, 5 July 2011 or such later date as may be agreed between the Lead Manager (for itself and on behalf of the Underwriters) and the Company. If the Lead Manager (for itself and on behalf of the Underwriters) and the Company are unable to reach any agreement on the Placing Price on or before Tuesday, 5 July 2011 or such later date as may be agreed between the Lead Manager (for itself and on behalf of the Underwriters) and the Company, the Placing will not become unconditional and will lapse immediately.

3. The share certificates for the Placing Shares to be distributed via CCASS are expected to be deposited in CCASS on or before Thursday, 7 July 2011 for credit to the relevant CCASS participants' or CCASS investor participants' stock accounts designated by the Lead Manager (for itself and on behalf of the Underwriters), the placees or their respective agents (as the case may be). No temporary documents or evidence of title will be issued by the Company. All share certificates will only become valid certificates of title when the Placing has become unconditional in all respects and the Underwriting Agreement has not been terminated in accordance with its terms prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

4. A separate announcement will be issued if there is any change to the above expected timetable.

For details of the structure of the Placing, including the conditions thereof, please refer to the section headed "Structure and Conditions of the Placing" in this prospectus.

**IMPORTANT NOTICE TO INVESTORS**

*This prospectus is issued by the Company solely in connection with the Placing and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Placing Shares offered by this prospectus pursuant to the Placing. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer in any other jurisdiction or in any other circumstances.*

*You should rely only on the information contained in this prospectus to make your investment decision. The Company, the Sponsor, the Lead Manager and the Underwriters have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Sponsor, the Lead Manager, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives or any other person involved in the Placing.*

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*This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all of the information which may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the whole prospectus including the appendices hereto, which constitute an integral part of this prospectus, before you decide to invest in the Placing Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are summarised in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.*

## 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 food at affordable prices with emphasis on food quality.

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). 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.

| Name of restaurant | Brand | Date of commencement of operation | Location | Featured services/cuisine |
|---|---|---|---|---|
| 1. Lam Tei Red Seasons | *Red Seasons Aroma Restaurant* (季季紅風味酒家) | 25 October 2006 | Lam Tei | Lam Tei Red Seasons is renowned as a specialist in serving dishes cooked with charcoal stoves which are not common in Hong Kong nowadays.<br><br>Provision of specialty cuisine such as roast suckling pigs cooked with charcoal stoves and other dishes. |
| 2. Plentiful Delight Banquet Restaurant | *Plentiful Delight Banquet* (喜尚嘉喜宴會廳) | 8 February 2007 | Yuen Long | Plentiful Delight Banquet Restaurant serves Cantonese dim sum, fresh seafood delicacies and specialty Chinese cuisine such as traditional walled village cuisine (圍村風味菜).<br><br>Provision of Chinese wedding banquet and dining services for large-scale events. 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. |
| 3. Tuen Mun Red Seasons | *Red Seasons Aroma Restaurant* (季季紅風味酒家) | 28 August 2009 | Tuen Mun | Provision of Cantonese dim sum, main courses and seasonal Chinese cuisine. |
| 4. Shatin Red Seasons | *Red Seasons Aroma Restaurant* (季季紅風味酒家) | 28 January 2010 | Shatin | Provision of Cantonese dim sum, main courses and seasonal Chinese cuisine. |
| 5. Tsuen Wan Red Seasons | *Red Seasons Aroma Restaurant* (季季紅風味酒家) | 28 June 2010 | Tsuen Wan | Provision of Cantonese dim sum, main courses and seasonal Chinese cuisine. |
| 6. Red Royalty Banquet Restaurant | *Red Royalty Banquet* (紅爵御宴) | To be launched in the fourth quarter of 2011 tentatively | Yuen Long | Provision of premium and deluxe Chinese wedding banquet and dining services. |

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 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. The Directors believe that the new branding strategy can assist the Group in addressing 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 Group also targets to open one more restaurant under the brand of ***Red Seasons Aroma Restaurant*** (季季紅風味酒家) in early 2013 and plans to explore business opportunities concerning the opening of other food outlets. 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.

**Sales and marketing**

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** | |
| | *HK$'000* | *% of total revenue* | *HK$'000* | *% of total revenue* |
| 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 |
| Total | 126,476 | 100.0 | 210,320 | 100.0 |

The revenue derived from the brand of *Red Seasons Aroma Restaurant* (季季紅風味酒家) as a percentage of the total revenue of the Group surged from 33.3% for the year ended 31 December 2009 to 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% for the year ended 31 December 2010. For details of the financial performance of the Group, please refer to the section headed "Financial Information" in this prospectus.

**Raw materials and suppliers**

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. 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 and obtain bulk purchase discount, and ensures that the purchase prices remain at competitive levels. 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 details of the raw materials and suppliers of the Group, please refer to the paragraph headed "Raw materials and suppliers" in the section headed "Business" in this prospectus.

**Restaurant network expansion**

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 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 market. 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. For details of the restaurant network expansion, please refer to the paragraph headed "Restaurant network expansion" in the section headed "Business" in this prospectus.

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 the section headed "Business" in this prospectus.

## LICENCES AND APPROVAL

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 | Address of the restaurant as shown in the general restaurant licence | Date of commencement of operation | Validity period of the current general restaurant licence | Validity period of the current liquor licence | Validity period of the current water pollution control licence |
|---|---|---|---|---|---|
| Plentiful Delight Banquet Restaurant | G/F (Portions) and 1/F, Ho Shun Tai Building, 10 Sai Ching Street, Yuen Long, New Territories | 8 February 2007 | 6 September 2010 to 5 September 2011 | 6 February 2011 to 5 February 2012 | 18 May 2011 to 31 May 2016 |
| Lam Tei Red Seasons | G/F, & 1/F, 1 Main Street, Lam Tei, Tuen Mun, New Territories | 25 October 2006 | 1 July 2010 to 30 June 2011 (renewed for 1 July 2011 to 30 June 2012) | 1 April 2011 to 31 March 2012 | 4 March 2011 to 31 March 2016 |
| Tuen Mun 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 | 28 August 2009 | 26 August 2010 to 25 August 2011 | 26 January 2011 to 25 January 2012 | 5 January 2011 to 31 January 2016 |
| Shatin Red Seasons | Shop No 33, G/F & Level 2, Garden Rivera, STTL 202, Sha Tin, New Territories | 28 January 2010 | 1 July 2010 to 30 June 2011 (renewed for 1 July 2011 to 30 June 2012) | 18 November 2010 to 17 November 2011 | 9 May 2011 to 31 May 2016 |
| Tsuen Wan Red Seasons | G/F (Portion), 1/F-2/F, Victory Court, 185 Castle Peak Road, Tsuen Wan, New Territories | 28 June 2010 | 21 March 2011 to 20 March 2012 | 22 March 2011 to 26 July 2011 | 17 June 2011 to 30 June 2016 |

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 in which each of the Group's restaurants operates. 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 any of its licences in the past and thus the Directors do not foresee any impediments in renewing all such licences.

## REGULATORY NON-COMPLIANCE

### *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 the FBR before commencing the restaurant business. A person who is not the named licensee of the relevant restaurant licence shall not carry on any restaurant business.

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 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 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 holding the general restaurant licence and operating the restaurant business. The Directors were not aware that such arrangement may result in the violation of FBR. Having considered that (i) the transfer of the business operations from Gayety to Jubilant will involve, among others, the arrangement to novate the existing contracts made by Gayety and the 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 was issued for Plentiful Delight Banquet Restaurant in the name of Gayety.

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, and such 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.

If the Group is found to have been in breach of section 31(1) of FBR for carrying on the 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 and 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 carrying on the restaurant business of each of Plentiful Delight Banquet Restaurant and Lam Tei Red Seasons (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 licences 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.

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.

***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.

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 needs 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 licensing 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 section 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 the EPD and the 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.

Apart from the above licences, certain members of the Group have not complied fully with the relevant requirements of the Companies Ordinance in relation to the laying of accounts within the prescribed period and the convening of annual general meetings in the past. For details of the non-compliance with Companies Ordinance, please refer to the paragraph headed "Non-compliance with Companies Ordinance" in the section headed "Business" in this prospectus.

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 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 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 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.

In addition, the Group has adopted the following internal control measures: (i) the Company has appointed the Company's 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 of any laws and regulations related to the Group.

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 as discussed above prior to Listing.

## 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
- High standard of quality control throughout all production processes
- Sourcing capabilities supported by a strong profile of quality suppliers
- Specialty dishes which are not common in Hong Kong
- Reliable and professional services to customers
- Strong and experienced senior management team
- Well-executed restaurant network expansion strategy

## BUSINESS OBJECTIVES AND STRATEGIES

The Group's primary objectives are to strengthen its position in the Chinese restaurant industry in Hong Kong, opportunistically diversify its service and product offerings and further expand its business operations. To achieve such objectives, the Group intends to implement the following strategies:

- Diversify service and product offerings with the implementation of a new branding strategy
- Upgrade existing restaurant facilities
- Strengthen staff training
- Enhance marketing activities to promote brands awareness
- Formation of strategic partnerships or cooperation arrangements with reputable industry partners in Hong Kong and China

## SUMMARY FINANCIAL INFORMATION

The following tables summarise the combined financial information of the Group during the Track Record Period, which is extracted from the Accountant's Report set out in Appendix I to this prospectus. The summary financial data should be read in conjunction with the combined financial information in the Accountant's Report set out in Appendix I to this prospectus.

**Combined statements of comprehensive income**

| | Year ended 31 December | |
|---|---|---|
| | **2009** | **2010** |
| | *HK$'000* | *HK$'000* |
| Revenue | 126,476 | 210,320 |
| Other income | 449 | 1,332 |
| Cost of inventories consumed | (45,410) | (75,558) |
| Employee benefits expenses | (33,671) | (61,784) |
| Depreciation | (5,538) | (7,718) |
| Operating lease rental expenses | (10,107) | (22,101) |
| Utilities expenses | (8,299) | (15,702) |
| Other gains – net | 35 | 564 |
| Other operating expenses | (9,813) | (14,229) |
| Operating profit | 14,122 | 15,124 |
| Finance costs – net | (552) | (669) |
| Profit before income tax | 13,570 | 14,455 |
| Income tax expenses | (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 | 2,390 | 1,536 |

During the years ended 31 December 2009 and 2010, the Group generated revenue of approximately HK$126.5 million and HK$210.3 million, representing an increase of approximately 66.3%. 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. In order to ensure the smooth operation of the new restaurants, operation staffs were recruited prior to the establishment of Shatin Red Seasons and Tsuen Wan Red Seasons during the year ended 31 December 2010 while the Group also incurred operating lease rental expenses prior to the commencement of operation of the new restaurants for renovation and preparation of the restaurant opening.

Moreover, minimum wage requirements in Hong Kong have increased and could continue to increase the Group's labour costs in the future. The salary level of employees in the restaurant industry in Hong Kong has been increasing in the past several years. The Group may not be able to increase its prices in order to pass these increased labour costs on to its customers, in which case the Group's profit margin would be negatively affected. The new law in respect of statutory minimum wage came into force on 1 May 2011 and the initial statutory minimum wage rate is HK$28 per hour. The new law provides more protection for employees and imposes more obligations on the employers. The Group estimates that its annual labour cost will increase by approximately HK$1.7 million for each of the two years ending 31 December 2012 as a result of the implementation of such new law, based on the number of headcount and level of employee benefits offered by the Group as at 31 December 2010. The Directors will revisit the work allocation of the employees of the Group from time to time in order to minimise the impact of the new regulation to the Group. The Directors confirm that the Group complies with the new law in respect of the minimum wage requirements. The Group is training its human resource management personnel and restaurant management personnel on the provisions and implications of the new law after conducting a comprehensive review of the past practices of the Group and has maintained a comprehensive employee list which sets out details of the monthly salaries and working hours of the employees in order to ensure compliance with the relevant statutory requirements. As such, the Group may incur additional compliance cost in this regard.

The net profit margin going forward will depend, among others, on cost components of the Group such as the cost of inventories consumed, employee benefits expenses and operating lease rental expenses. 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. As such, the cost of inventories consumed remained consistent at 35.9% for the years ended 31 December 2009 and 2010. However, the employee benefits expenses and operating lease rental expenses as a percentage of revenue increased from approximately 26.6% and 8.0% for the year ended 31 December 2009 to approximately 29.4% and 10.5% for the year ended 31 December 2010 respectively. Such increases were primarily due to the establishment of two new restaurants during the year ended 31 December 2010.

**Combined Statements of Financial Position**

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

| | As at 31 December | |
|---|---|---|
| | 2009 | 2010 |
| | *HK$'000* | *HK$'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 | 1,618 | 2,209 |
| Deferred income tax liabilities | 113 | 33 |
| | 1,731 | 2,242 |
| **Current liabilities** | | |
| Trade payables | 7,504 | 9,769 |
| Other payables, accruals and deposits received | 7,328 | 12,684 |
| Income tax payable | 4,069 | 6,246 |
| Amounts due to directors | 3,395 | 12,988 |
| Amounts due to non-controlling shareholders of a subsidiary | 675 | 4 |
| Bank borrowings | 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 |

As at 31 December 2009 and 2010, the Group had net current liabilities of approximately HK$6,554,000 and HK$5,837,000 respectively.

**Combined Cash Flow Statements**

| | Year ended 31 December | |
|---|---|---|
| | **2009** | **2010** |
| | *HK$'000* | *HK$'000* |
| **Cash flows from operating activities** | | |
| Cash generated from operations | 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 | 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 | (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 | 13,802 | 16,968 |

## STATISTICS OF THE PLACING

| | Based on a Placing Price of HK$0.60 per Placing Share | Based on a Placing Price of HK$1.00 per Placing Share |
|---|---|---|
| Market capitalisation of the Shares *(Note 1)* | HK$192 million | HK$320 million |
| Historical price/earnings multiple *(Note 2)* | 19.3 times | 32.1 times |
| Unaudited pro forma adjusted net tangible asset value per Share *(Note 3)* | HK$0.15 | HK$0.25 |

*Notes:*

(1) The calculation of the market capitalisation of the Shares is based on the respective Placing Prices of HK$0.60 and HK$1.00 per Placing Share and 320,000,000 Shares in issue immediately after completion of the Placing and the Capitalisation Issue, but takes no account of any Share which may fall to be allotted and issued pursuant to the general mandate for the allotment and issue of Shares or any Shares which may be repurchased by the Company pursuant to the general mandate for repurchase of Shares referred to in the paragraph headed "Resolutions in writing passed by the sole Shareholder on 25 June 2011" in Appendix V to this prospectus.

(2) The calculation of the historical price/earnings multiple is based on the historical earnings per Share for the year ended 31 December 2010, the respective Placing Prices of HK$0.60 and HK$1.00 per Placing Share and on the assumption that 320,000,000 Shares, comprising Shares in issue as at the date of this prospectus and Shares to be issued pursuant to the Placing, had been in issue throughout the year.

(3) The unaudited pro forma adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the section headed "Financial Information" in this prospectus, and on the basis of the respective Placing Prices of HK$0.60 and HK$1.00 per Placing Share and 320,000,000 Shares in issue immediately following completion of the Placing and the Capitalisation Issue.

## SHAREHOLDING STRUCTURE

Set out below are the respective shareholding structures of the Company immediately before and after completion of the Placing and the Capitalisation Issue:

| Name | Date on which shareholding interest in the Company was first acquired | Number of Shares held immediately before the completion of the Placing and the Capitalisation Issue | Approximate percentage of shareholding in the Company immediately before the completion of the Placing and the Capitalisation Issue | Number of Shares to be held immediately after the completion of the Placing and the Capitalisation Issue | Approximate percentage of shareholding in the Company immediately after the completion of the Placing and the Capitalisation Issue |
|---|---|---|---|---|---|
| KMW *(Note 1)* | 10 February 2011 | 38,000,000 | 100% | 240,000,000 | 75% |
| Public *(Note 2)* | N/A | N/A | N/A | 80,000,000 | 25% |

*Notes:*

(1) The entire issued share capital of KMW is owned as to 50% by Mr. Wong KM and 50% by Ms. Lau LY.

(2) 80,000,000 Placing Shares are being offered by the Company under the Placing.

## DIVIDEND AND DIVIDEND POLICY

For the year ended 31 December 2009 and 2010, the Group declared and paid dividends of approximately HK$2,390,000 and HK$1,536,000 respectively to the shareholders of the companies now comprising the Group.

In March 2011 and May 2011, the Group declared and paid interim dividends of HK$16.0 million and HK$7.0 million respectively.

After completion of the Placing, the Shareholders will be entitled to receive dividends only when declared by the Directors. The payment and the amount of any future dividends will be at the discretion of the Directors and will depend on the future operations and earnings, capital requirements and surplus, general financial condition and other factors that the Directors deem relevant. As these factors and the payment of dividends is at the discretion of the Board, which reserves the right to change its plan on the payment of dividends, there can be no assurance that any particular dividend amount, or any dividend at all, will be declared and paid in the future. Investors should note that historical dividend distributions are not indicative of the Group's future dividend distribution policy.

Cash dividends on the shares, if any, will be paid in Hong Kong dollars.

## REASONS FOR THE PLACING

The Company intends to raise funds by the Placing in order to pursue its business objectives as described above. The Directors believe that the Listing will enhance the Group's profile and recognition and the net proceeds from the Placing will strengthen the Group's financial position such that the Group is fully equipped to pursue the business plans set out in the paragraph headed "Implementation plan" in the section headed "Future Plans and Use of Proceeds" in this prospectus.

## USE OF PROCEEDS

Assuming a Placing Price of HK$0.8 per Placing Share, being the mid-point of the indicative Placing Price range of HK$0.60 to HK$1.00 per Placing Share, the net proceeds from the Placing, after deducting related expenses, are estimated to amount to approximately HK$46.5 million. Such net proceeds are intended to be used as follows:

- approximately 73.1% of the net proceeds, or approximately HK$34.0 million, for the diversification of service and product offerings with the implementation of a new brand strategy, among which:
  - approximately 51.6% of the net proceeds, or approximately HK$24.0 million will be applied for the opening of Red Royalty Banquet Restaurant;
  - approximately 19.4% of the net proceeds, or approximately HK$9.0 million will be applied for the opening of one other new restaurant; and
  - approximately 2.1% of the net proceeds, or approximately HK$1.0 million will be applied for the opening of other food outlets;
- approximately 2.1% of the net proceeds, or approximately HK$1.0 million, for the upgrading of existing restaurant facilities;
- approximately 4.1% of the net proceeds, or approximately HK$1.9 million, for the strengthening of staff training;
- approximately 6.5% of the net proceeds, or approximately HK$3.0 million, for the enhancement of marketing activities to promote brand awareness;
- approximately 4.3% of the net proceeds, or approximately HK$2.0 million for the formation of strategic partnerships or cooperation arrangements with reputable industry partners in Hong Kong and China; and
- the remaining approximately 9.9% of the net proceeds, or approximately HK$4.6 million as additional general working capital of the Group.

According to current estimates, the Group expects that the net proceeds from the Placing of approximately HK$46.5 million, the cash in bank and on hand as at the Latest Practicable Date together with the projected cash flow from operations will be sufficient to finance the implementation of the Company's future plans up to 31 December 2013.

If the final Placing Price is set at the highest or lowest point of the indicative Placing Price range, the net proceeds of the Placing will increase or decrease by approximately HK$15.6 million, respectively. In such event, the net proceeds will be used in the same proportions as disclosed above irrespective of whether the Placing Price is determined at the highest or lowest point of the indicative Placing Price range.

## IMPLEMENTATION PLAN

The Directors have drawn up an implementation plan for the period up to 31 December 2013 with a view to achieve the business objectives along with the strategies as described above. Details of the future plans are set out in the paragraph headed "Implementation plan" in the section headed "Future Plans and Use of Proceeds" in this prospectus.

In summary, the implementation of the future plans for the period from the Latest Practicable Date to 31 December 2013 will be entirely funded by the net proceeds from the Placing as follows:

| | **From the Latest Practicable Date to 31 December 2011** *(HK$ million)* | **For the six months ending 30 June 2012** *(HK$ million)* | **For the six months ending 31 December 2012** *(HK$ million)* | **For the six months ending 30 June 2013** *(HK$ million)* | **For the six months ending 31 December 2013** *(HK$ million)* | **Total** *(HK$ million)* |
|---|---|---|---|---|---|---|
| Diversify service and product offerings with the implementation of a new branding strategy | 18.2 | 3.2 | 3.2 | 4.7 | 4.7 | 34.0 |
| Upgrade existing restaurant facilities | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 1.0 |
| Strengthen staff training | 0.6 | 0.3 | 0.3 | 0.3 | 0.4 | 1.9 |
| Enhance marketing activities to promote brands awareness | 1.0 | 0.5 | 0.5 | 0.5 | 0.5 | 3.0 |
| Formation of strategic partnerships or cooperation arrangements with reputable industry partners in Hong Kong and China | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 2.0 |
| Total | 20.4 | 4.6 | 4.6 | 6.1 | 6.2 | 41.9 |

The remaining balance of approximately HK$4.6 million will be used as additional general working capital of the Group.

## RISK FACTORS

The Directors consider that the business of the Group and its performance are subject to a number of risk factors which can be categorised into (i) risks relating to the business of the Group; (ii) risks relating to the industry; (iii) risks relating to the Placing; and (iv) risks relating to statements made in this prospectus. There risks are set out in the section headed "Risk Factors" in this prospectus, the headings of which are as follows:

**Risks relating to the business of the Group**

- The future growth of the Group relies on its ability to open and profitably operate new restaurants and the Group's new restaurants may not operate as successful as the Group anticipates
- The Group's branding strategies may not achieve desired results
- All of the Group's revenue during the Track Record Period was derived from its restaurant business in Hong Kong
- The success of the Group depends in part on its ability to meet customer expectations and anticipate and respond to changing customer preferences
- The Group may not be able to renew, amend or transfer its licences for operating its restaurants or obtain new licences for its new restaurants
- The Group has no long-term contract with its existing suppliers for the constant supply of quality food ingredients
- The availability and price fluctuations of food ingredients and other supplies, in particular, the continued increases in the prices of food and other supplies in the PRC, will affect the business and financial performance of the Group
- Decline in the quality of food ingredients that the Group purchases will affect the financial performance of the Group
- Disruptions to any of the Group's restaurants will affect its financial conditions and results of operation
- The Group's business may be affected by the outbreak of food-related diseases or contagious diseases, any adverse publicity or complaints on food safety or services
- Current restaurant locations may become unattractive, and attractive new locations may not be available for a commercially reasonable price, if at all

- The Group may be required to relocate its business
- The Group has a history of net current liabilities
- Seasonality and other factors may affect the financial performance of the Group
- The Group may encounter difficulty in sustaining profitability
- The Group is heavily dependent on its key executives and personnel
- Any failure to maintain effective quality control systems of the Group's restaurants could have a material adverse effect on the Group's business and operations
- The operation of the Group's restaurants opened during the Track Record Period may not be as smooth as the Group anticipates
- The Group may be unable to detect, deter and prevent all instances of fraud or other misconduct committed by the Group's employees, customers or other third parties
- The Group's operations are cash intensive, and its business could be adversely affected if it fails to maintain sufficient levels of working capital
- The Group relies on information technology systems, which may be susceptible to failures
- The Group may be unable to adequately protect its intellectual property, which could harm the value of its brands and adversely affect its business
- If there is any legal action or claim against the Group or any member of the Board or senior management of the Group, the Group's performance, business reputation and profitability could be adversely affected
- If the Group fails to continue to improve its infrastructure, management or operational systems or to obtain financial resources to support its expansion, the Group may be unable to achieve its expansion objectives and its business and operations may be harmed
- The Company is a holding company and relies on dividend payments from its subsidiaries

**Risks relating to the industry**

- The Group's business depends on the macro-economic situation in Hong Kong and may be adversely affected by reductions in discretionary consumer spending as a result of downturns in the economy and increase in inflation

- The Group operates in a highly competitive industry

- The restaurant business in Hong Kong may be subject to stringent licensing requirements, environmental protection regulations and hygiene standards which can increase the operating costs

- Labour shortages or increases in labour costs could slow its growth, harm its business and reduce its profitability

- The Group's business may be negatively affected in instances of contagious disease of animals, food-borne illness and outbreaks of other diseases, as well as negative publicity relating to such instances in Hong Kong or other markets in which the Group operates

**Risks relating to the Placing**

- There has been no prior public market for the Shares, and the liquidity, market price and trading volume of the Shares may be volatile

- An active trading market of the Shares may not develop

- Purchasers of the Placing Shares will experience an immediate dilution and may experience further dilution if the Company issues additional Shares or other securities in the future

- Future sales by existing Shareholders of a substantial number of Shares in the public market could materially and adversely affect the prevailing market price of the Shares

- Historical dividends may not be indicative of the amount of future dividend payments or the Group's future dividend policy

**Risks relating to the statements made in this prospectus**

- Statistics and facts in this prospectus have not been independently verified

*Unless the context otherwise requires, the following expressions have the following meanings in this prospectus.*

| | |
|---|---|
| "Accountant's Report" | the accountant's report on the Company set out in Appendix I to this prospectus |
| "affiliate(s)" | with respect to any person, any other person(s) directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person |
| "Articles" or "Articles of Association" | the articles of association of the Company adopted on 25 June 2011 and as amended from time to time, a summary of the current version of which is set out in Appendix IV to this prospectus |
| "associate(s)" | has the meaning ascribed to it under the GEM Listing Rules |
| "Board" | the board of Directors |
| "Bookrunner" | Quam Securities, the bookrunner of the Placing |
| "Buildings Department" | the Buildings Department of the Government |
| "business day" | a day (other than a Saturday, Sunday or public holiday) in Hong Kong on which banks in Hong Kong are generally open for normal business |
| "BVI" | the British Virgin Islands |
| "CAGR" | compound annual growth rate |
| "Capitalisation Issue" | the issue of Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of the Company referred to in the section headed "Resolutions in writing passed by the sole Shareholder on 25 June 2011" in Appendix V to this prospectus |
| "CCASS" | the Central Clearing and Settlement System established and operated by HKSCC |

| | |
|---|---|
| "Cheung Lee Petrol" | Cheung Lee Petrol Company, a sole proprietorship established by Mr. Lau Chi Man, the brother of Ms. Lau LY, in Hong Kong which commenced business on 17 August 2006 |
| "Companies Law" | the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time |
| "Companies Ordinance" | the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time |
| "Company" | Gayety Holdings Limited (喜尚控股有限公司), a company incorporated in the Cayman Islands on 10 February 2011 as an exempted company with limited liability |
| "connected person(s)" | has the meaning ascribed to it under the GEM Listing Rules |
| "Controlling Shareholder(s)" | has the meaning ascribed to it under the GEM Listing Rules and, in the context of this prospectus, means the controlling shareholders of the Company, namely KMW, Mr. Wong KM and Ms. Lau LY |
| "DCO" | the Dutiable Commodities Ordinance (Chapter 109 of the Laws of Hong Kong) |
| "DCR" | the Dutiable Commodities (Liquor) Regulations (Chapter 109B of the Laws of Hong Kong) |
| "Deed of Non-competition" | the deed of non-competition dated 25 June 2011 and entered into by Mr. Wong KM, Ms. Lau LY and the Company regarding certain non-competition undertakings given by each of Mr. Wong KM and Ms. Lau LY in favour of the Company (for itself and as trustee for its subsidiaries), a summary of the principal terms of which is set out in the paragraph headed "Non-competition undertakings" in the section headed "Controlling Shareholders and Substantial Shareholders" in this prospectus |

| | |
|---|---|
| "Deed of Trust" | a trust deed dated 17 November 2009 executed by Mr. Sin, pursuant to which 50% equity interests in Red Seasons were held by Mr. Sin on trust for Ms. Lau LY |
| "DEP" | the Director of Environmental Protection |
| "Department of Health" | Department of Health of the Government |
| "DFEH" | the Director of Food and Environmental Hygiene |
| "Director(s)" | the director(s) of the Company |
| "EatSmart Restaurant (有「營」食肆)" | an accreditation status granted by the Department of Health to restaurants that are committed to providing dishes in accordance with the nutrition benchmarks set by the Department of Health, such as dishes that have only vegetables and fruit as ingredients or where portions of vegetables and fruit are more than twice that of meat and dishes that use less fat or oil, salt and sugar in cooking or preparation |
| "EPD" | Environmental Protection Department of the Government |
| "E-Profit" | E-Profit Investment Limited, a company incorporated in Hong Kong with limited liability on 17 March 2000, and is owned as to 18% by Ms. Lau LY and the remaining 46%, 18% and 18% by Mr. Lau Wong Fat, Ms. Chan Lee Lee and Ms. Lau Lai Wah Pauline respectively, which to the best knowledge of the Directors, are Independent Third Parties |
| "FBR" | the Food Business Regulation (Chapter 132X of the Laws of Hong Kong) |
| "FEHD" | the Food and Environmental Hygiene Department of the Government |
| "Fire Services Department" | the Hong Kong Fire Services Department of the Government |
| "Gayety" | Gayety Limited (喜尚有限公司), a company incorporated in Hong Kong with limited liability on 19 August 2006, and an indirect wholly-owned subsidiary of the Company |

| | |
|---|---|
| "GEM" | the Growth Enterprise Market operated by the Stock Exchange |
| "GEM Listing Rules" | the Rules Governing the Listing of Securities on GEM as amended, supplemented or otherwise modified from time to time |
| "GEM Website" | the internet website at **www.hkgem.com** operated by the Stock Exchange for the purposes of GEM |
| "Government" | the Government of Hong Kong |
| "GR Holdings" | GR Holdings Limited, a company incorporated in Samoa with limited liability on 30 September 2010, and a direct wholly-owned subsidiary of the Company |
| "Group" | the Company and its subsidiaries, or where the context so requires in respect of the period prior to the Company becoming the holding company of its present subsidiaries, such subsidiaries or the business which have since been acquired or carried on by them for the time being |
| "HK" or "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "HKFRSs" | Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants |
| "HKSCC" | Hong Kong Securities Clearing Company Limited |
| "Independent Third Party(ies)" | an individual(s) or a company(ies) who or which is/are not connected (within the meaning of the GEM Listing Rules) with any Director, the chief executive or the substantial shareholder of the Company or any of its subsidiaries and/or their respective associates |
| "Jubilant" | Jubilant Company Limited (喜尚嘉喜有限公司), a company incorporated in Hong Kong with limited liability on 8 August 2006, and an indirect wholly-owned subsidiary of the Company |

| | |
|---|---|
| "KMW" | KMW Investments Limited, a company incorporated in BVI with limited liability on 19 November 2010, and is owned as to 50% by Mr. Wong KM and 50% by Ms. Lau LY |
| "Lam Tei" | Lam Tei (藍地), an area in Tuen Mun |
| "Lam Tei Red Seasons" | a restaurant under ***Red Seasons Aroma Restaurant*** (季季紅風味酒家) which is situated in Lam Tei, the operation of which is carried out by Tin Ho |
| "Latest Practicable Date" | 25 June 2011, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained in this prospectus |
| "Lead Manager" | Quam Securities, the lead manager of the Placing |
| "Liquor Licensing Office" | the Liquor Licensing Office of the FEHD |
| "Listing" | the listing of the Shares on GEM |
| "Listing Date" | the date on which dealings in the Shares first commence on GEM, which is expected to be Friday, 8 July 2011 |
| "Listing Division" | the listing division of the Stock Exchange |
| "LLB" | the Liquor Licensing Board of Hong Kong |
| "Main Board" | the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding options market) and which stock market continues to be operated by the Stock Exchange in parallel with GEM and which, for the avoidance of doubt, excludes GEM |
| "Memorandum" or "Memorandum of Association" | the memorandum of association of the Company adopted on 25 June 2011 and as amended from time to time |
| "Michelin" | SCA Compagnie Générale des Établissements Michelin, a tyre manufacturer based in Clermont-Ferrand in the Auvergne région of France |
| "Michelin Bib Gourmand" | a distinction awarded by the Michelin Guide to those restaurants which are judged to be "wonderful restaurants with top-quality cuisine at highly affordable prices" |

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| "Michelin Guide" | a collection of 25 food guides first published in 1900 by Michelin and currently published annually covering 23 countries and more than 45,000 food establishments to whom awards are given based on evaluation on a range of criteria, and is currently available in 14 editions sold in nearly 90 countries |
| "Michelin Guide Hong Kong Macau 2011" | The Michelin Guide Hong Kong Macau 2011 issued on 2 December 2010 |
| "Mr. Li WH" | Mr. Li Wai Hung, the restaurant manager and a member of the senior management of the Group |
| "Mr. Sin" | Mr. Sin Wai Keung, a former shareholder and one of the directors of Red Seasons |
| "Mr. Wong KM" | Mr. Wong Kwan Mo, the chairman of the Company, an executive Director, one of the Controlling Shareholders and the spouse of Ms. Lau LY |
| "Ms. Lau LY" | Ms. Lau Lan Ying, the chief executive officer of the Company, an executive Director, one of the Controlling Shareholders and the spouse of Mr. Wong KM |
| "Placing" | the conditional placing of the Placing Shares by the Underwriters on behalf of the Company for cash at the Placing Price, as further described in the section headed "Structure and Conditions of the Placing" in this prospectus |
| "Placing Price" | the final price per Placing Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee payable thereon) which will be not more than HK$1.00 per Placing Share and is expected to be not less than HK$0.60 per Placing Share at which the Placing Shares are to be offered for subscription pursuant to the Placing, to be determined as further described in the section headed "Structure and Conditions of the Placing" in this prospectus |
| "Placing Shares" | the 80,000,000 new Shares being offered by the Company for subscription at the Placing Price under the Placing |

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| "*Plentiful Delight Banquet* (喜尚嘉喜宴會廳)" | Plentiful Delight Banquet 喜尚嘉喜宴會廳, the tradename under which Plentiful Delight Banquet Restaurant is operated |
| "Plentiful Delight Banquet Restaurant" | a restaurant under *Plentiful Delight Banquet* (喜尚嘉喜宴會廳) which is situated in Yuen Long, the operation of which is carried out by Gayety |
| "PRC" or "China" | the People's Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires, references in this prospectus to "China" and "PRC" do not apply to Hong Kong, Macau Special Administrative Region and Taiwan |
| "Price Determination Agreement" | the agreement to be entered into between the Company and the Lead Manager (for itself and on behalf of the Underwriters) on the Price Determination Date to fix and record the Placing Price |
| "Price Determination Date" | the date, expected to be on or before Tuesday, 5 July 2011, on which the Placing Price is expected to be fixed for the purposes of the Placing |
| "Quam Capital" or "Sponsor" | Quam Capital Limited, a corporation licensed by the SFC to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the sponsor of the Listing |
| "Quam Securities" | Quam Securities Company Limited, a corporation licensed by the SFC to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO |
| "Queenmax" | Queenmax Limited, a company incorporated in BVI with limited liability on 15 August 2006 and is wholly owned by Mr. Wong KM since 19 October 2006 |
| "*Red Royalty Banquet* (紅爵御宴)" | 紅爵御宴, the tradename under which Red Royalty Banquet Restaurant is intended to be operated |
| "Red Royalty Banquet Restaurant" | a restaurant under *Red Royalty Banquet* (紅爵御宴) which is currently intended to be opened by the Group in Yuen Long |

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| "Red Seasons" | Red Seasons Limited (季季紅有限公司), a company incorporated in Hong Kong with limited liability on 13 August 2009, and an indirect wholly-owned subsidiary of the Company |
| "*Red Seasons Aroma Restaurant* (季季紅風味酒家)" | Red Seasons Aroma Restaurant 季季紅風味酒家, the tradename under which Lam Tei Red Seasons, Tuen Mun Red Seasons, Shatin Red Seasons and Tsuen Wan Red Seasons are operated |
| "Reorganisation" | the corporate reorganisation of the Group effected in preparation for the Listing as described in the paragraph headed "Reorganisation" in the section headed "History and Development" in this prospectus and in Appendix V to this prospectus |
| "RS Catering" | Red Seasons Catering Limited (季季紅美食有限公司), a company incorporated in Hong Kong with limited liability on 26 January 2010, and an indirect wholly-owned subsidiary of the Company |
| "RS Corporation" | Red Seasons Corporation Limited (季季紅集團有限公司), a company incorporated in Hong Kong with limited liability on 15 December 2009, and an indirect wholly-owned subsidiary of the Company |
| "Sencas" | Sencas Limited (誠嘉有限公司), a company incorporated in Hong Kong with limited liability on 11 September 2006, and is owned as to 60% by GR Holdings. It is an indirect non wholly-owned subsidiary of the Company |
| "SFC" | the Securities and Futures Commission of Hong Kong |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time |
| "Share(s)" | ordinary share(s) of HK$0.01 each in the share capital of the Company |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Shatin" | Shatin district of Hong Kong |

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| "Shatin Red Seasons" | a restaurant under *Red Seasons Aroma Restaurant* (季季紅風味酒家) which is situated in Shatin, the operation of which is carried out by RS Corporation |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "subsidiary" or "subsidiary(ies)" | has the meaning ascribed to it in section 2 of the Companies Ordinance |
| "substantial shareholder(s)" | has the meaning ascribed to it under the GEM Listing Rules |
| "Takeovers Code" | The Hong Kong Codes on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended, supplemented or otherwise modified from time to time |
| "Tin Ho" | Tin Ho Restaurant Limited (天河酒樓有限公司), a company incorporated in Hong Kong with limited liability on 14 December 1979, and is owned as to 60% by GR Holdings. It is an indirect non wholly-owned subsidiary of the Company |
| "Track Record Period" | the period comprising the years ended 31 December 2009 and 2010 |
| "Tsuen Wan" | Tsuen Wan district of Hong Kong |
| "Tsuen Wan Red Seasons" | a restaurant under *Red Seasons Aroma Restaurant* (季季紅風味酒家) which is situated in Tsuen Wan, the operation of which is carried out by RS Catering |
| "Tuen Mun" | Tuen Mun district of Hong Kong |
| "Tuen Mun Red Seasons" | a restaurant under *Red Seasons Aroma Restaurant* (季季紅風味酒家) which is situated in Tuen Mun, the operation of which is carried out by Red Seasons |
| "U Cellar" | U Cellar Limited (御酒窖有限公司), a company incorporated in Hong Kong with limited liability on 4 May 2009, and is owned as to 50% by Mr. Wong KM and 50% by Ms. Lau LY |

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| "U Favorite Food Award (我最喜愛的廣東菜館)" | U Favorite Food Award (我最喜愛的廣東菜館), the award granted in respect of the Group's restaurants by U Magazine |
| "U Investments" | U Investments Limited (御投資有限公司), a company incorporated in Hong Kong with limited liability on 8 December 2009, and is owned as to 50% by Mr. Wong KM and 50% by Ms. Lau LY |
| "U Magazine" | U Magazine, a magazine circulating in Hong Kong |
| "Underwriters" | the underwriters of the Placing named in the paragraph headed "Underwriters" in the section headed "Underwriting" in this prospectus |
| "Underwriting Agreement" | the conditional underwriting agreement entered into on 30 June 2011 by the Company, the Controlling Shareholders, the Sponsor, the Lead Manager and the Underwriters relating to the Placing, particulars of which are summarised in the section headed "Underwriting" in this prospectus |
| "Wong Yuen Hing" | Wong Yuen Hing Fresh Food Company Limited (黃元興鮮肉食品有限公司), a company incorporated in Hong Kong with limited liability on 17 April 1998, and is owned as to 50% by Mr. Wong KM and 50% by Ms. Lau LY |
| "WPCO" | the Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong) |
| "HK$", "HK dollars" and "cents" | Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong |
| "US$" or "US dollars" | United States dollars, the lawful currency of the United States of America |
| "km$^2$" | square kilometers |
| "sq.m" or "m$^2$" | square meters |
| "%" | per cent. |

*All dates and times in this prospectus refer to Hong Kong time unless otherwise stated.*

*Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments and, accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

This prospectus contains certain forward-looking statements relating to the Group that are based on the beliefs, intentions, expectations or predictions of the management of the Company for the future as well as assumptions made by and information currently available to the management of the Company as of the date of this prospectus. These forward-looking statements are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- the Group's operations and business prospects;
- the Group's future developments, trends and conditions in the industry and geographical market in which the Group operates;
- the Group's strategies, plans, objectives and goals;
- changes to regulatory and operating conditions in the industry and geographical market in which the Group operates;
- the Group's ability to control costs;
- the Company's dividend policy;
- the amount and nature of, and potential for, future development of the Group's business;
- certain statements in the section headed "Financial Information" in this prospectus with respect to trends in prices, volumes, operations, margins, overall market trends and risk management; and
- the general economic trends and conditions.

When used in this prospectus, the words "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "ought to", "plan", "project", "potential", "seek", "should", "will", "would" and similar expressions, as they relate to the Group or the management of the Group, are intended to identify forward-looking statements. These forward-looking statements reflect the views of the management of the Company as of the date of this prospectus with respect to future events and are not a guarantee of future performance or developments. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. Actual results and events may differ materially from information contained in the forward-looking statements as a result of a number of factors, including:

- any changes in the laws, rules and regulations relating to any aspects of the Group's business operations;
- general economic, market and business conditions, including capital market developments;

- changes or volatility in interest rates, equity prices or other rates or prices;
- the actions and developments of the Company's competitors and the effects of competition in the restaurant industry on the demand for, and price of, the Group's services;
- various business opportunities that the Company may or may not pursue;
- persistency levels;
- the Company's ability to identify, measure, monitor and control risks in the Group's business, including the Company's ability to manage and adapt the Group's overall risk profile and risk management practices;
- the Company's ability to properly price the Group's services and establish reserves for future policy benefits;
- fluctuations in the price of raw materials;
- the Group's ability to meet customer expectations and respond to changing customer preferences;
- seasonal fluctuations; and
- the risk factors discussed in this prospectus as well as other factors beyond the Company's control.

Subject to the requirements of the applicable laws, rules (including the GEM Listing Rules) and regulations, the Group does not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way the Group expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information or statements. All forward-looking statements in this prospectus are qualified by reference to the cautionary statements set forth in this section. The Directors confirm that these forward-looking statements are made after due and careful consideration.

## WAIVER FROM COMPLIANCE WITH THE GEM LISTING RULES

For the purpose of the Listing, the Company has sought a waiver, as described below, from the Stock Exchange in relation to certain requirements under the GEM Listing Rules. Details of the waiver are described below.

## CONTINUING CONNECTED TRANSACTIONS

Certain members of the Group have entered into and are expected to continue certain transactions, which will constitute (1) exempt continuing connected transaction of the Company under the GEM Listing Rules; and (2) non-exempt continuing connected transactions for the Company under the GEM Listing Rules, upon Listing. Pursuant to Rule 20.42(3) of the GEM Listing Rules, the Company has applied for and has been granted a waiver from strict compliance with the relevant announcement and/or independent shareholders' approval requirements set out in Chapter 20 of the GEM Listing Rules in relation to the non-exempt continuing connected transactions of the Company. Further details of such waiver are set out in the section headed "Connected Transactions" in this prospectus.

*Investors should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making any investment in the Shares in the Placing. If any of the possible events described below occur, the business operation, financial condition or results of operation of the Group could be materially and adversely affected and the market price of the Shares could fall significantly.*

## RISKS RELATING TO THE BUSINESS OF THE GROUP

### The future growth of the Group relies on its ability to open and profitably operate new restaurants and the Group's new restaurants may not operate as successful as the Group anticipates

The Directors believe that the future growth of the Group relies on its ability to open and profitably operate new restaurants. To further expand its operation, the Group currently plans to open two new restaurants by the end of 2013. However, its ability to successfully open new restaurants in the future is subject to a number of risks and uncertainties, including but not limited to:

- difficulties in locating suitable new restaurant sites or securing leases on commercially reasonable terms;
- delays or difficulties in securing required governmental approvals and licences;
- shortage of qualified operating personnel, especially restaurant managers;
- renovation delays or cost overruns; and
- potential cannibalisation effects between existing and new restaurant locations.

In light of the non-compliance incidents of the Group during the Track Record Period which details were disclosed in the sub-paragraph headed "Compliance" of the paragraph headed "Licences and approval" in the section headed "Business" in this prospectus 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. As a result, there may be delays in the opening of new restaurants if the Group is unable to obtain applicable licences and become compliant with applicable laws and regulations in a timely manner.

In addition, the Group expects to incur significant costs in connection with the expansion of its business by opening new restaurants and the expansion may place substantial strain on the managerial, operational and financial resources of the Group. In particular, the management may be stretched or distracted by the operation of new restaurants. There is no assurance that the managerial, operational and financial resources of the Group will be adequate to support its expansion. Moreover, the Group may not be able to attract enough customers to its new restaurants because potential customers may be unfamiliar with its brand name or the atmosphere or menus of its restaurants might not appeal to them. Each new restaurant will generally take several months to reach planned operating levels due to inefficiencies involved in the ramp-up of new restaurants.

There can be no assurance that the revenue of each of the Group's new restaurants will be equal to or exceed those of its existing restaurants. These new restaurants may operate at a loss, which could have an adverse effect on the Group's overall financial performance and business.

In early 2011, the Group decided to take steps to further develop its business and diversify its restaurant portfolio by adopting a new strategy. The major step will include the opening of its sixth restaurant in Yuen Long (i.e. Red Royalty Banquet Restaurant) under ***Red Royalty Banquet*** (紅爵御宴), which will become the third brand established by the Group, to provide premium and deluxe Chinese wedding banquet services 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.

As at the Latest Practicable Date, the Group incurred approximately HK$454,000 of establishment costs for Red Royalty Banquet Restaurant which mainly consist of deposit payments for restaurant supplies and equipment.

There is no assurance that Red Royalty Banquet Restaurant can generate profit to the Group. Its sales performances may be affected by various factors, such as the target customers' expenditure patterns, tastes and preferences. Increased overhead costs incurred for the restaurant may adversely affect the financial performance of the Group.

Furthermore, 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 services to be provided to the targeted customers. Thus, the Group has to invest more manpower resources for managing and operating this restaurant. There is no assurance that the operational performance of this restaurant will meet the Group's expectations, or that the Group may be able to successfully replicate in this restaurant the present business strategies and model which it has employed to date.

**The Group's branding strategies may not achieve desired results**

The Group plans to commence a branding strategy in order to develop a more cohesive and engaging portfolio of brands, to better align its brands according to its target customer segments, to update its brands to more effectively meet a number of key industry trends as well as to serve as a platform for its expansion.

In view of the aforesaid objectives, the Group plans to establish *Red Royalty Banquet* (紅爵御宴), which will become the third brand of the Group and Red Royalty Banquet Restaurant will be opened under this brand. As such, after the implementation of branding strategy as mentioned above, the Group will operate six restaurants under three brands.

If there is any negative publicity associated with the branding of the Group during the transition period, such as the overall operational performance of the restaurants operated by the Group is in question, the results of the Group's restaurants could be adversely affected.

Furthermore, the branding plan may disrupt ongoing marketing initiatives for the Group's restaurants in the course of the Group's expansion of the existing brands. The Group therefore cannot assure that its branding plan will not have a material adverse effect on its results of business and financial performance.

**All of the Group's revenue during the Track Record Period was derived from its restaurant business in Hong Kong**

During the Track Record Period, all of the Group's revenue was derived from its restaurant business in Hong Kong. The Directors anticipate that the Group's restaurant business in Hong Kong will continue to be its core business following the completion of the Placing and the Capitalisation Issue.

Competition in the Chinese restaurant industry in Hong Kong is keen, and the operating results may fluctuate from time to time subject to various factors, including customers' taste and economic performance, most of which fall outside the control of the Group. In addition, the Group has limited experience in business operation in other places, and may have difficulties in relocating its business to other geographic markets. Therefore, if there is any deterioration of the restaurant market in Hong Kong, the Group's business may be significantly affected.

**The success of the Group depends in part on its ability to meet customer expectations and anticipate and respond to changing customer preferences**

The success of the Group depends to a large extent on its ability to offer menu items that appeal to the changing tastes, dietary habits, expectations and other preferences of its target customers.

The restaurant industry is characterised by the continuous introduction of new concepts and is subject to rapidly changing customer preferences and dining habits. If the Group is unable to identify new customer trends or preferences and develop and offer new menu items accordingly, or if it lags behind its competitors in introducing and developing new dishes that appeal to its customers, or if the cuisine offered at the Group's restaurants is not well received by its target customers, sales of the Group may be adversely affected. Moreover, changing customer preferences may require the Group to incur significant costs to survey and research customer trends and preferences and develop and market new menu items which may place substantial strain on the financial resources of the Group.

**The Group may not be able to renew, amend or transfer its licences for operating its restaurants or obtain new licences for its new restaurants**

As a prerequisite for operating restaurants in Hong Kong, three principal types of licences are required, including: (i) a general restaurant licence issued by the DFEH of the FEHD; (ii) a liquor licence issued by the LLB that was applied for and granted to an individual employee of the relevant restaurant; (iii) a water pollution control licence issued by the DEPD of the EPD. The general restaurant licence and the liquor licence are typically granted for a period of one year and the water pollution control licence is granted for a period of not less than two years, subject to continuous compliance with the relevant requirements in the relevant legislation and subsidiary legislation, such as hygiene, food quality and environmental matters, and upon payment of the respective licence fees. New restaurants will be granted a provisional restaurant licence which is valid for a period of up to six months to allow the restaurant operator to commence business operations pending the issue of a full restaurant licence. 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 in which each of the Group's restaurants operates and all of these licences are still valid and subsisting. The expiry dates of such existing licences fall between 26 July 2011 and 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. In any event, the Group will not sell or supply liquor without a valid liquor licence.

The Group has encountered certain compliance issues with its restaurants in the past. The holders of the general restaurant licence in respect of Lam Tei Red Seasons and Plentiful Delight Banquet Restaurant were Tin Ho and Jubilant respectively instead of their respective operating company (i.e. Sencas and Gayety respectively). 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.

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. Pursuant to section 11(1) of the WPCO, if the Group is found to have been in breach of section 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.

For details of these compliance issues, please refer to the sub-paragraph headed "Compliance" of the paragraph headed "Licences and approvals" in the section headed "Business" in this prospectus.

There can be no assurance that the Group will be able to renew or amend or transfer (as the case may be) any of the licences as and when required. In addition, opening new restaurants is an expansion method of the Group and new licences would be required for its new restaurants. If the Group is unable to obtain new licences for its new restaurants, its business expansion plan may be disrupted.

As at the Latest Practicable Date, all holders of the liquor licence of each of the Group's restaurants were employees of the Group.

Under regulation 15 of the DCR, any transfer of a liquor licence must be made on the form as determined by the LLB. For a transfer application, consent of the holder of liquor licence is required. Under regulation 24 of the DCR, in case of illness or temporary absence of the holder of liquor licence, the secretary to the LLB may in his discretion authorise any person to manage the licensed premises. The application under such regulation is required to be made by the holder of liquor licence. For any application for cancellation of the liquor licence made by the holder of liquor licence, an application for new issue of a liquor licence will be required to be made to the LLB. Under section 54 of the DCO, in case of death or insolvency of the holder of liquor licence, his executor or administrator or trustee may carry on the business in the licensed premises until the expiration of the licence.

If the relevant employee refuses to give consent to a transfer application when a transfer is required by the Group, fails to make an application in respect of illness or temporary absence, or makes a cancellation application without the Group's consent, or if an application for new issue of a liquor licence is required to be made to the LLB in case of death or insolvency of the relevant employee, it may cause the relevant restaurant to suspend or cease the sale of liquor for a certain period, which may adversely affect the business and profitability of the Group.

**The Group has no long-term contract with its existing suppliers for the constant supply of quality food ingredients**

The ability to source quality food ingredients at competitive prices in a timely manner is crucial to the Group's business. This assists the Group in the preparation of its menus and provide forerunning selections to its target customers. However, the Group has no long-term contract with its existing suppliers. For each of the years ended 31 December 2009 and 2010, the total purchase from its five largest suppliers in aggregate accounted for approximately 36.0% and 38.1% respectively, and its purchase from its largest supplier accounted for approximately 10.3% and 9.8% respectively, of its total purchases. During the Track Record Period, none of the Group's key suppliers ceased or indicated that it would cease supply to the Group, and the Group did not experience any material delays or interruptions in securing the supply of food ingredients from its key suppliers.

There can be no assurance that the Group is able to maintain business relationships with its suppliers, and in particular, its five largest suppliers. If the Group's suppliers are not able to supply food ingredients to it or the quality of their food ingredients deteriorates or is affected by other factors outside its control, it may not be able to locate alternate supply promptly and on comparable commercial terms. Its performance could therefore be adversely affected.

**The availability and price fluctuations of food ingredients and other supplies, in particular, the continued increases in the prices of food and other supplies in the PRC, will affect the business and financial performance of the Group**

The Group's business is highly dependent on a sufficient supply of food ingredients and other supplies that meet the quality requirements of the Group.

Sufficiency in the supply of food ingredients may be affected by many factors, such as the occurrence of diseases, droughts, floods, earthquakes or other disruption on a significant scale. A material shortage in the supply of food ingredients will affect the production and the processing of food products as well as the operation of the restaurants of the Group. This may in turn have an adverse effect on the Group's financial performance and business. Suppliers may take into account factors, such as quality of food ingredients, duration of supply agreement, logistics arrangement, seasonal factors and demand and supply of food ingredients in determining the price of food supply. As such, fluctuations in the supply of food ingredients will in turn affect the market price of these food ingredients.

Most of the food ingredients and other restaurant supplies of the Group are sourced from the PRC. The major food ingredients used by the Group which are sourced from the PRC include pork, chicken, shrimp and other seafood. The prices of such food ingredients have experienced volatility and is affected by various factors, such as weather and harvest conditions of the food ingredients, the policies of the PRC government and market competition. Food prices and prices of other supplies have been rising sharply in the PRC in recent years. According to the National Bureau of Statistics of China, the PRC consumer price index, its key inflation indicator, rose by 4.9% and food price were up 10.3% year-on-year in January 2011.

Although the State Council of the PRC has announced a series of measures in August 2010 and November 2010 to stabilise food prices in the PRC, support production, safeguard supply and curb illegal pricing practices, there is no way to be certain how long the current increase in price of food and other supplies in the PRC may continue and to what extent it may affect the restaurant industry. The Group currently does not engage in futures contracts or other financial risk management strategies against potential price fluctuations in the cost of food and other supplies as the Group purchases food and other supplies at prevailing market prices.

There is no assurance that food ingredient prices will not fluctuate or the Group will not experience any shortage of supply of food ingredients in the future. If the Group experiences a rise in the price of its food ingredients and it is unable to source other substitutes nor transfer the cost increment to its customers, the Group's business and financial results could be adversely affected.

**Decline in the quality of food ingredients that the Group purchases will affect the financial performance of the Group**

The core raw materials for the food production process of a restaurant business are food ingredients and the Group's restaurant business heavily relies on a reliable supply of quality and fresh food ingredients. Thus, the Group places emphasis on sourcing reliable suppliers that provide quality and fresh food ingredients.

There can be no assurance that the quality of food ingredients used by the Group remaining at a high standard. Certain factors which are beyond the Group's control, such as change in weather conditions, decline of quality of animal feed and change of feeding conditions and methods, may adversely affect the quality of the food ingredients and in turn have an adverse effect on the Group's business and financial results.

**Disruptions to any of the Group's restaurants will affect its financial conditions and results of operation**

The Group's operations are vulnerable to interruption by typhoons, fires, floods, earthquakes, power failures and power shortages, computer hardware and software failures, computer viruses and other events beyond its control. For example, any prolonged interruption to the operation of the Group's restaurants due to blackouts or shortage of electricity and/or water may have a material adverse effect on the Group's business and financial results.

The Group's business is also dependent on prompt delivery and quality transportation of its raw materials and food ingredients. Certain events, such as adverse weather conditions, natural disasters, severe traffic accidents and delays, non-cooperation of its suppliers or their logistics partners and labour strikes, could also lead to delayed or lost deliveries to its restaurants or customers, which may result in the loss of revenue or customer claims. There may also be instances where the conditions of fresh, chilled or frozen food ingredients, being perishable goods, deteriorate due to delivery delays, malfunctioning of refrigeration facilities or poor handling during transportation by its suppliers and their logistics partners. This may result in a failure by the Group to provide quality food and services to customers, thereby affecting its business and damaging its reputation. Any such events experienced by the Group could disrupt its production and other operations and it does not carry business interruption insurance to compensate the Group for losses that may occur as a result of such events.

**The Group's business may be affected by the outbreak of food-related diseases or contagious diseases, any adverse publicity or complaints on food safety or services**

The Group's restaurants have been recognised for delivery of high quality Chinese cuisine and wedding banquet and dining services. In December 2010, Lam Tei Red Seasons, one of the Group's restaurants, was awarded the Michelin Bib Gourmand, a Michelin Guide distinction awarded to restaurants judged to be "wonderful restaurants with top-quality cuisine at highly affordable prices". The Directors believe it would deepen the public's perception that the Group's restaurants offer good quality Chinese cuisine.

Given the nature of the restaurant industry, the Group faces an inherent risk of food contamination and product liability claims. Certain kinds of food including eggs, sauces, vegetables and various kinds of seafood have been found to contain hazardous substances to human's health. Any outbreak of contamination, allegations of poor standards of hygiene or cleanliness, adverse publicity resulting from publication of industry findings or research reports in relation to any of food ingredients used by the Group could affect public confidence in the Group's food products may lead to a loss in consumer confidence and reduction in consumption of the particular food product concerned. Customers may also allege the loss of personal property in the Group's restaurants. The Group may also have to incur additional costs in placating any customers or salvaging its reputation or may have to look for alternative sources of food supply which may be more costly. Any such complaints, allegations or negative publicity, regardless of their validity, may damage the Group's business reputation which could adversely affect the Group's business.

During the Group's ordinary course of business operations, the Group received complaints from its customers, which were mainly related to the quality of food or services at its restaurants. The Group's customers lodged complaints by informing the managers of the Group's restaurants. If there is any material incident associated with the quality of food and services provided by the Group's restaurants, it may give rise to potential liability to the affected customers and may adversely affect the Group's business reputation. Customers may lose confidence in the Group for a long period of time. This can have a profound impact not only on the business of the relevant restaurant, but also the Group's other restaurants of the same brand.

In the event that the Group's insurance coverage is inadequate, it may be required to compensate its customers for any illness or injuries suffered, or damage to personal property if it is found to be at fault. If any complaint escalates to become a claim against the Group, even unsuccessful, it would be required to divert resources to address the claim. Liabilities in respect of such claims could adversely affect the Group's financial position and results of operations.

**Current restaurant locations may become unattractive, and attractive new locations may not be available for a commercially reasonable price, if at all**

The success of any restaurant depends in substantial part on its location. As at the Latest Practicable Date, most of the Group's restaurants were located either on busy roads or in shopping arcades to ensure a continuous and steady flow of target customers. There can be no assurance that the current restaurant locations of the Group will continue to be attractive as demographic patterns of the surrounding environment may decline or otherwise change in the future. If there are any adverse changes to the surroundings of the areas where the Group's restaurants are located, such as the closing down of shopping arcades or the development of heavy construction works which cause the surrounding pedestrian flow to drop dramatically, the revenue from these locations will be adversely affected.

In addition, if the Group cannot obtain desirable restaurant locations at commercially reasonable prices, its ability to implement its growth strategy will be adversely affected.

During the years ended 31 December 2009 and 2010, the Group incurred approximately HK$10.1 million and HK$22.1 million respectively as operating lease rental expenses, representing approximately 8.0% and 10.5% respectively of the Group's total revenue. Most of the Group's restaurants are leased from Independent Third Parties and the Group has an exposure to the retail rental market. The Directors estimate that generally, rental for premises that are suitable for restaurant business in Hong Kong will continue to increase. If there is any substantial increase in market rental, the Group's profitability could be adversely affected.

There may also be a shortage of suitable premises in Hong Kong for restaurants. In particular, the Group's restaurants require large premises. The total saleable area of the Group's restaurants ranges from approximately 595.60 sq.m to 1,712 sq.m. Even if suitable premises are available, the lease terms may not be acceptable to the Group. In such event, the Group's plan for opening new restaurants may be delayed or cannot be implemented at all, which could have an adverse impact on its growth.

The Group may not be able to renew the existing leases at commercially reasonable terms, or at all, upon the expiration of the existing terms. In addition, the Group may not be able to negotiate leases of longer term. In the event that the Group needs to relocate any of its existing restaurants, its business could be interrupted and additional relocation costs will need to be incurred. As a result, its business and profitability could be adversely affected.

**The Group may be required to relocate its business**

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. There is no assurance that the landlord will be able to obtain the relevant mortgagee's consent.

There is no assurance that the Group would be able to secure a prompt relocation to suitable premises, nor is there any assurance that the relocation will not have any adverse impact on the Group's business, which may in turn affect the revenue and financial performance of the Group.

**The Group has a history of net current liabilities**

The Group had recorded net current liabilities of approximately HK$6.6 million and HK$5.8 million as at 31 December 2009 and 2010 respectively. The net current liabilities of the Group as at 31 December 2009 and 2010 was primarily due to the short-term bank borrowings of approximately HK$16,262,000 as at 31 December 2009 and the net amounts due to directors of approximately HK$10,384,000 as at 31 December 2010, resulting from renovation of existing restaurants and opening of new restaurants. The short-term bank borrowings as at 31 December 2009 accounted for approximately 41.4% and the net amounts due to directors as at 31 December 2010 accounted for approximately 24.9% of the total current liabilities. The major factor attributable to the net current liabilities position of the Group as at 31 December 2009 and 2010 despite the healthy operating cash inflow was the expenditure in relation to the opening of new restaurants during the respective years. There is no assurance that the Group's operations will generate sufficient cash inflow to finance all the Group's activities and cover its general working capital requirements in the future. In the event that the Group is unable to generate enough cash from its operations to finance its future development, the performance and prospects of the Group as well as its ability to implement its business plan will be adversely affected. For further details of indebtedness and liquidity, financial resources and capital structure of the Group, please refer to the section headed "Financial Information" of this prospectus.

**Seasonality and other factors may affect the financial performance of the Group**

The Group's financial performance may fluctuate from period to period due to various factors, such as seasonality and overall performance of each of the Group's restaurants.

Chinese wedding banquets are generally less popular in the months of July and August as the Chinese ghost festival usually falls within these months and it is considered inauspicious to get married. The revenue generated by providing such services tends to be lower during these months in each year. Further, the overall results of the financial performance may fluctuate from period to period due to several factors, such as the following:

- the operating costs of the new restaurants are comparatively greater during the first few months of operations; and

- the revenue generated during the first few months of operations are comparatively lesser as the customer base has not been built up maturely.

As such, the results of the financial performance of the Group may fluctuate from period to period and any comparison of different periods may not reflect the overall financial performance of the Group accurately.

**The Group may encounter difficulty in sustaining profitability**

The revenue of the Group for the years ended 31 December 2009 and 2010 was approximately HK$126.5 million and HK$210.3 million respectively. 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.

### The Group is heavily dependent on its key executives and personnel

The Group's performance depends, to a significant extent, on the continued services and the performance of its key management members. Many of the key individuals, including all the executive Directors, listed in the section headed "Directors, Senior Management and Staff" in this prospectus and major chefs of the Group have substantial experiences in operating restaurants. Competition for key management personnel is intense and there is no assurance that the Group can maintain, develop and continually tap on the leadership skills of its key management personnel. Save for Mr. Wong KM, Ms. Lau LY and Mr. Li WH, the Company has not maintained any key-man insurance during the Track Record Period. The insurance maintained for Mr. Wong KM and Ms. Lau LY have been discontinued as at the Latest Practicable Date. If one or more of such key management personnel are unable or unwilling to continue in their present positions due to health reasons or otherwise, and the Group is not able to find a suitable replacement within a reasonable period of time or at all, the business and operations of the Group may be materially disrupted. In addition, if any Director or member of senior management or any other key personnel joins a competitor or forms a competing company, the Group may lose its established network of suppliers and customers. As such, the failure to retain its key executives and personnel could adversely affect the business and financial results of the Group.

### Any failure to maintain effective quality control systems of the Group's restaurants could have a material adverse effect on the Group's business and operations

The quality of food served by the Group's restaurants is critical to the Group's success. Maintaining consistent quality of the food provided by the Group's restaurants depends significantly on the effectiveness of the Group's quality control systems, which in turn depends on a number of factors, including the design of the Group's quality control systems and its ability to ensure that its employees adhere to those quality control policies and guidelines. Any significant failure or deterioration of the Group's quality control systems could have a material adverse effect on the Group's reputation, results of operations and financial condition.

### The operation of the Group's restaurants opened during the Track Record Period may not be as smooth as the Group anticipates

Since 2009, the Group established three restaurants for expanding its restaurants business during the Track Record Period, namely Shatin Red Seasons, Tsuen Wan Red Seasons and Tuen Mun Red Seasons. As such, to cope with the increased scale of operation, the Group invested more resources in operating these recently opened restaurants which resulted in the increase of the overhead costs and operation expenses of the Group accordingly.

The revenue of these recently opened restaurants depends on the economic atmosphere of Hong Kong and competition by competitors offering similar food and services at competitive prices which may be beyond the control of the Group. Hence, there can be no assurance that these recently opened restaurants can generate stable and considerable revenue to the Group in short run and the increased overhead costs and operational expenses incurred by these recently opened restaurants may adversely affect the Group's profitability and business as a whole.

**The Group may be unable to detect, deter and prevent all instances of fraud or other misconduct committed by the Group's employees, customers or other third parties**

The Group receives and handles large amounts of cash in its daily operations. In addition, certain employees are authorised to make supply purchases on its behalf. There have been various publicised instances of fraud, theft, bribery, corruption and other misconduct involving employees, customers and other third parties against large restaurant chains in recent years. Such instances can be difficult to fully detect, deter and prevent, and could subject the Group to financial losses and damage its reputation. In order to avoid misappropriation and illegal uses of cash, the Group implemented specific procedures on cash custody, such as segregation of duties and daily reconciliation of the cash receipt with the cash sales record. The Group also adopted a cash management and delivery system in each of the restaurants. The Group has engaged a security company to collect cash at each restaurant and deliver it to the bank on a daily basis to ensure the safety of cash received by the Group. For details of the measure and procedures implemented by the Group to prevent such fraud or other misconduct, please refer to the sub-paragraph headed "Settlement" of the paragraph headed "Sales and marketing" in the section headed "Business" in this prospectus. In the event the Group may be unable to prevent, detect or deter all such instances of fraud, theft, bribery, corruption or other misconduct, such fraud, corruption or other misconduct committed against the Group's interests, which may include past acts that have gone undetected or future acts, may have a material adverse effect on its business, financial condition and results of operations.

**The Group's operations are cash intensive, and its business could be adversely affected if it fails to maintain sufficient levels of working capital**

The Group expends a significant amount of cash in its operations, principally to fund its raw material procurement. Its suppliers require payment in full mostly within approximately 45 days after the end of the month in which the relevant purchases are made. In turn, the Group typically requires its customers of its food products to make payment in full on consumption. The Group primarily funds most of its working capital requirements out of cash flow generated from operations. If the Group fails to generate sufficient revenues from its sales, it may not have sufficient cash flow to fund its operating costs and its business could be adversely affected.

**The Group relies on information technology systems, which may be susceptible to failures**

The Group depends on its information technology systems to monitor the daily operations of its restaurants and food production and processing facilities and to maintain accurate and up-to-date financial data for the compilation of management information and the making of business decisions. Any system failures in these processes may cause interruptions to the input, retrieval, processing or transmission of data and could disrupt the business operations of the Group and consequently its results of operations.

**The Group may be unable to adequately protect its intellectual property, which could harm the value of its brands and adversely affect its business**

The Directors believe that the Group's brands are essential to its success and its competitive position. Although the Group has four trademarks registered and has six trademark applications pending in Hong Kong, there is no assurance that any of the pending trademark applications would be successful and the Group may not be able to protect its intellectual property adequately. For further details, please refer to the paragraph headed "Intellectual Property Rights" in the section headed "Business" in the prospectus. There is no assurance that the trademark registration applications would be successful. If the Group fails in any of its trademark registration applications described above, or if it is held by any court or tribunal to have infringed on any trademark of others, its business may be adversely affected.

In addition, third parties may infringe upon the Group's intellectual property rights or misappropriate its proprietary knowledge, which could have a material adverse effect on its business, financial condition or operating results. The Group may, from time to time, be required to initiate litigation to protect and enforce its trademarks and other intellectual property rights, and to protect its trade secrets. Such litigation could result in substantial costs and diversion of resources, which could negatively affect its sales, profitability and prospects. Moreover, even if any such litigation is resolved in the favour of the Group, it may not be able to successfully enforce the judgment and remedies awarded by the court and such remedies may not be adequate to compensate it for its actual or anticipated related losses, whether tangible or intangible.

In addition, the Group may face claims of infringement that could interfere with its use of its proprietary know-how, concepts, recipes or trade secrets. The Group may be required to incur a substantial amount of costs in defending against such claims and, if the Group is unsuccessful, it may also be prohibited from continuing to use such proprietary information in the future or be forced to pay damages, royalties or other fees for using such proprietary information. In such event, the Group's financial performance and business reputation will be adversely affected.

**If there is any legal action or claim against the Group or any member of the Board or senior management of the Group, the Group's performance, business reputation and profitability could be adversely affected**

For each of the years ended 31 December 2009 and 2010, there were claims made by the Group's employees against the Group, which mainly related to personal injuries arising in the ordinary course of employment or business operations of the Group.

There have been the following claims made by employees against the companies in the Group since the founding of the Group in 2006:

(1) An employee filed a claim against Red Seasons at Labour Tribunal in 2010 for terminating the contract of service before a personal injury claim is settled. The parties reached an agreement that Red Seasons would pay a sum of HK$3,500 to the employee in full and final settlement of the claim.

(2) Two employees filed a claim against RS Catering at Labour Tribunal in 2011 for failure to pay wages and grant annual leave in relation to a dispute concerning the notice period for the termination of their respective employment contracts. RS Catering made a counterclaim against the two said employees on the ground that each of the employment contracts were terminated without sufficient notice or payment in lieu of notice. The parties reached an agreement that RS Catering would pay an aggregate sum of HK$18,264.93, the amount of which was determined by the ruling of the Labour Tribunal, to the employees in full and final settlement of the claim.

(3) In 2008, an employee slipped and fell backward in the kitchen of Plentiful Delight Banquet Restaurant during the course of her employment. She sprained her body and sustained left hip injury. The said employee filed a claim against Gayety at the District Court under the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) in 2009. The parties reached an agreement that Gayety would, in addition to the advanced payment of HK$14,160, pay a sum of HK$50,554 to the employee in full and final settlement of the claim. The parties also reached a pre-action settlement in respect of the employee's personal injuries claim under common law in the sum of HK$300,000 in 2011. According to the legal representative of Gayety in this action, the settlement sum has been fully paid and is covered by the insurance policy of Gayety.

(4) In 2007, an employee suffered from an electric shock when he switched on the light of the Plentiful Delight Banquet Restaurant during the course of employment and sustained injury. He filed a claim against Gayety at the District Court under the Employees' Compensation Ordinance in 2009. The parties reached an agreement that Gayety would pay a sum of HK$86,838 to the employee in full and final settlement of the claim. The said employee has also made a personal injuries claim against Gayety under common law for a sum of HK$692,644 in 2010. The case has been set down for trial on a running list not to be warned before July 2011. According to the legal representative of Gayety in this action, the amount claimed is covered by the insurance policy of Gayety.

According to the litigation search records of the Group, the total number of employees' claims against the Group since the founding of the Group is insignificant when compared with the total number of employees employed by the Group.

| **Name of restaurant** | **Current operating company** | **Number of employees** | **Total number of employees' claims** |
|---|---|---|---|
| Plentiful Delight Banquet Restaurant | Gayety | 182 | 2 |
| Lam Tei Red Seasons | Tin Ho | 80 | 0 |
| Tuen Mun Red Seasons | Red Seasons | 93 | 1 |
| Shatin Red Seasons | RS Corporation | 79 | 0 |
| Tsuen Wan Red Seasons | RS Catering | 99 | 1 |
| | **Total** | 533 | 4 |

Since most of the above employees' claims have been fully paid and the amount claimed in the outstanding legal action in (4) above is not substantial and is covered by insurance, the Company and the Directors consider that the above legal proceedings would not, individually or taken as a whole, materially and adversely affect the Group's business, financial condition or results of operations. Save as disclosed above, the Group complied with all applicable laws and regulations on employees' safety in all material aspects during the Track Record Period. The Directors consider that as (i) the Group has adopted employees' safety measures and that it has complied with all applicable laws and regulations on employees' safety in all material aspects; and (ii) the Group has revisited its employees' safety measures after those incidents in order to ensure the measures adopted by the Group are sufficient, the Directors are of the view that the employees' safety measures of the Group are adequate and the safety compliance records are acceptable.

The Group has encountered certain compliance issues in the past. For details of these compliance issues, please refer to the sub-paragraph headed "Compliance" of the paragraph headed "Licences and approvals" in the section headed "Business" in this prospectus. If it is found that a member of the Board or senior management of the Group commits an offence under section 31(1) of the FBR, he or she could be liable to imprisonment for six months. Any such incident or allegation may damage the Group's reputation. In such event, the Group's business could be adversely affected.

There can be no assurance that the Group will not face any litigation or claim in the future. In such event, the Group's performance, business reputation and profitability could be adversely affected.

**If the Group fails to continue to improve its infrastructure, management or operational systems or to obtain financial resources to support its expansion, the Group may be unable to achieve its expansion objectives and its business and operations may be harmed**

The Group faces the risk that its existing senior personnel, operational systems and tools, financial controls, information systems and other systems and procedures may be inadequate to support its planned expansion. The Group may not be able to respond on a timely basis to the demands that its planned expansion will impose on its infrastructure, management, operational systems and financial resources. The Group expansion plans may require significant amounts of management time and financial resources and divert such resources from its existing business and operations. If the Group fails to continue to improve its infrastructure, management or operational systems or to obtain financial resources required to support its planned expansion, it may be unable to achieve its expansion objectives and its business and operations may be harmed.

**The Company is a holding company and relies on dividend payments from its subsidiaries**

The Company is a holding company and conducts substantially all of its business through its operating subsidiaries. As a result, its ability to pay dividends depends on dividends and other distributions received from these subsidiaries. If the subsidiaries incur debt or loss, it may impair their ability to pay dividends or other distributions to the Company, which could adversely affect its ability to pay dividends to the Shareholders.

In addition, restrictive covenants in bank credit facilities, indentures, joint venture agreements or other arrangements that the Group may enter into in the future may also restrict the ability of the subsidiaries to pay dividends or make distributions to the Company. These restrictions could reduce the amount of dividends or other distributions the Company receives from its subsidiaries, which in turn would restrict its ability to pay dividends to the Shareholders.

## RISKS RELATING TO THE INDUSTRY

**The Group's business depends on the macro-economic situation in Hong Kong and may be adversely affected by reductions in discretionary consumer spending as a result of downturns in the economy and increase in inflation**

The Group's core business is operating Chinese restaurants in Hong Kong and the performance of which is closely correlated with the economic condition of Hong Kong. Given that consumer habits are particularly sensitive to the state of the economy, any deterioration of the economy, decrease in disposable consumer income, fear of a recession and changes in consumer confidence may affect consumer preferences and spending, which in turn reduce the discretionary spending. This will adversely affect the Group's business. In the event of an economic downturn, consumers will tend to become more budget conscious and sensitive to the amount they are willing to spend on food. As the business of the Group is concentrated in Hong Kong, it is heavily dependent on the Hong Kong economy. If consumers' spending pattern change or if there occurs any significant decline in the Hong Kong economy and the Group is unable to divert its business to other geographic locations, its revenue, profitability and business prospects will be materially affected.

According to the composite consumer price index ("**Composite CPI**"), a key inflation indicator, released by the Census and Statistics Department of Hong Kong, overall consumer prices rose by 2.9% in November 2010 over the same month a year earlier, larger than the corresponding increase (2.6%) in October 2010. Netting out the effects of all Government's one-off relief measures on loan deferment, the year-on-year rate of increase in the Composite CPI in November 2010 was 2.6%, larger than that in October (2.3%), was mainly due to the enlarged increases in private housing rentals, as well as the prices of food, particularly that on salt-water fish. On a seasonally adjusted basis, the average monthly rate of increase in the Composite CPI for the 3-month period from September to November 2010 was 1.0%, and that for the 3-month period from August to October 2010 was 0.8%. Netting out the effects of all Government's one-off relief measures on loan deferment, the average monthly rate of increase in the Composite CPI for the 3-month period from September to November 2010 was 0.4%, and that for the 3-month period from August to October 2010 was 0.3%.

The implicit price deflator of gross domestic product (GDP), as a broad measure of overall inflation in the economy, increased by 2.5% in the third quarter of 2010 over a year earlier, after registering virtually no change in the second quarter.

An increase in inflation, often triggered by the increase in energy prices, will increase the Group's costs of business and create inefficiencies in its operations. It will also reduce the disposable incomes of the Group's customers and create uncertainty over future inflation, resulting in decreased spending in dining or choosing restaurants with lower-priced food, which may in turn affect the business of the Group. A significant increase in inflation, which is beyond control of the Group, may have an adverse effect on the Group's business and financial performance.

**The Group operates in a highly competitive industry**

Competition in the restaurant industry is highly intense. The Group faces intense competition from a large and diverse group of restaurant chains and individual restaurant operators, and food manufacturers who are engaged in the production of similar products. There are numerous Chinese restaurants in Hong Kong offering different cuisine. Restaurants in Hong Kong also offer non-Chinese cuisines, such as Japanese, Korean, Vietnamese, Indian, French and Italian. The Group competes directly with certain other Chinese restaurants and indirectly with operators in other market segments in the restaurant business. The Group competes on the basis of taste, quality, price of food offered, customer service, ambience, and the overall dining experience. Some of the Group's competitors may have longer operating histories, larger customer bases, better brand recognition, and better financial, marketing and public relations resources. As it competes with other competitors as well as new market entrants, the Group's business and results of operations may be adversely affected in the event that it is not competitive in terms of its pricing, or there is deterioration in the quality of its food products or its level of service.

As the Group works towards expanding its restaurant network, it may also have to compete with other retailers for the acquisition of prime shop spaces or experienced employees. The competition for prime locations may increase the bargaining power of landlords seeking to lease out their properties. Consequently, the Group may not be able to rent these prime locations on terms which are comparable to its existing restaurants, or its competitors may offer better terms than the Group does. It may also have to offer experienced management staff higher wages in order to recruit or retain them. Such instances will increase the Group's operating costs, thereby affecting its financial performance.

The revenue of the Group for the years ended 31 December 2009 and 2010 was approximately HK$126.5 million and HK$210.3 million respectively. The Group achieved a profit attributable to owners of the Company of approximately HK$9.4 million and HK$10.0 million respectively for the years ended 31 December 2009 and 2010. With increasing competition within the industry, there can be no assurance that the Group can continue to achieve any profit in the future.

**The restaurant business in Hong Kong may be subject to stringent licensing requirements, environmental protection regulations and hygiene standards which can increase the operating costs**

There can be no assurance that the requirements for obtaining general restaurant licences, water pollution control licences and liquor licences in Hong Kong will not become more stringent. Operations of food and beverage establishments, including restaurants, are required to comply with increasingly stringent environmental protection regulations. The requirements for obtaining the relevant hygiene permits, the approvals on fire protection and the permits for discharging polluting materials in Hong Kong may also become more stringent.

Any failure to comply with existing regulations, or future legislative changes, could require the Group to incur significant compliance costs or expenses or result in the assessment of damages, imposition of fines against it or a suspension of any part of its business, which could materially and adversely affect the Group's financial condition and results of operations. The Group may have to incur more costs in complying with any changing laws and regulations in relation to the restaurants industry on hygiene, fire and safety standards. In addition, should the Group fail to comply with more stringent licensing requirements, its restaurants may be required to cease operation, and its profitability could be adversely affected.

**Labour shortages or increases in labour costs could slow its growth, harm its business and reduce its profitability**

Restaurant operations are highly service-oriented and therefore, the Group's success depends in part upon the Group's ability to attract, motivate and retain a sufficient number of qualified employees, including restaurant managers, kitchen staff and wait staff, all of which are necessary to keep pace with its anticipated expansion schedule and meet the needs of its existing restaurants. To support the growth of the business of the Group, it is necessary to increase work force of skilled employees. It is anticipated that the staffing requirements of the

Group can be satisfied through internal transfers and local hiring. However, there is no assurance that the Group will not experience difficulty in recruiting personnel. Qualified individuals are in short supply and competition for these employees is intense. Any future inability to recruit and retain qualified individuals may delay the planned openings of new restaurants and could adversely impact its existing restaurants. Any such delays, any material increases in employee turnover rates in existing restaurants or any widespread employee dissatisfaction could have a material adverse effect on its business and results of operations. In addition, competition for qualified employees could also require the Group to pay higher wages which could result in higher labour costs. As at the Latest Practicable Date, the Group employed a total of 533 full-time employees working at its offices and restaurants in Hong Kong. For each of the years ended 31 December 2009 and 2010, the Group incurred approximately HK$33.7 million and HK$61.8 million as employee benefits expenses respectively, representing approximately 26.6% and 29.4% respectively, of the Group's total revenue. It is expected that the labour cost of the Group will increase as a result of the expected expansion of its business. The failure to attract experienced personnel at a desirable level of labour costs could adversely affect the business, financial condition and results of operations of the Group.

Moreover, minimum wage requirements in Hong Kong have increased and could continue to increase the Group's labour costs in the future. The salary level of employees in the restaurant industry in Hong Kong has been increasing in the past few years. The Group may not be able to increase its prices in order to pass these increased labour costs on to its customers, in which case the Group's profit margins would be negatively affected. The new law in respect of statutory minimum wage came into force on 1 May 2011 and the initial statutory minimum wage rate is HK$28 per hour. The new law provides more protection for employees and imposes more obligations on the employers. The Group estimates that its annual labour cost will increase by approximately HK$1.7 million for each of the two years ending 31 December 2012 as a result of the implementation of such new law based on the number of headcount and level of employee benefits offered by the Group as at 31 December 2010. The Directors will revisit the work allocation of the employees of the Group from time to time in order to minimise the impact of the new regulation on the Group. The Directors confirm that the Group complies with the new law in respect of the minimum wage requirements. The Group is training its human resource management personnel and restaurant management personnel on the provisions and implications of the new law after conducting a comprehensive review of the past practices of the Group and has maintained a comprehensive employee list which sets out details of the monthly salaries and working hours of the employees in order to ensure compliance with the relevant statutory requirements. As such, the Group may incur additional compliance cost in this regard.

**The Group's business may be negatively affected in instances of contagious disease of animals, food-borne illness and outbreaks of other diseases, as well as negative publicity relating to such instances in Hong Kong or other markets in which the Group operates**

Any outbreak of food-borne diseases such as Swine Influenza, which is also known as pig flu, and Bovine Spongiform Encephalopathy, which is also known as BSE or mad cow disease, whether or not traced to restaurants of the Group, may lead to a loss in consumer confidence and reduce customer traffic and restaurant sales. In addition, any negative publicity relating to these and other health-related matters may affect consumers' perception of restaurants of the Group and its food products, reduce customer traffic of the Group's restaurants and negatively impact sales of the Group.

In addition, an epidemic outbreak, including severe acute respiratory syndrome, which is also known as SARS, or avian influenza, in Hong Kong or other markets in which the Group operates could severely reduce customer traffic of the Group's restaurants and harm the results of the Group's operations. The Group does not have any specific insurance coverage for any loss of the Group as a result of any outbreak of the abovementioned contagious disease.

## RISKS RELATING TO THE PLACING

**There has been no prior public market for the Shares, and the liquidity, market price and trading volume of the Shares may be volatile**

The Listing is by way of the Placing and the Shares have not been listed or quoted on any stock exchange or open market before completion of the Placing. There is no assurance that there will be an active trading market of the Shares on GEM upon Listing. In addition, the market price of the Shares to be traded on GEM may differ from the Placing Price and investors should not treat the Placing Price as an indicator of the market price of the Shares to be traded on GEM.

Upon Listing, the trading volume and market price of the Shares may be affected or influenced by a number of factors from time to time, including but not limited to, the income, profit and cash flow of the Group, new products, services and/or investments of the Group, changes of senior management of the Group, and general economic conditions. There is no assurance that such factors will or will not occur and it is difficult to quantify the impact on the Group and on the trading volume and market price of the Shares.

**An active trading market of the Shares may not develop**

Prior to the Placing, there has been no public market for any of the Shares. There can be no guarantee that an active trading market for the Shares will develop, or, if it does develop, that it will be sustained following completion of the Placing, or that the market price of the Shares will not fall below the Placing Price.

**Purchasers of the Placing Shares will experience an immediate dilution and may experience further dilution if the Company issues additional Shares or other securities in the future**

Based on the Placing Price range, the Placing Price is expected to be higher than the net tangible asset value per Share immediately prior to the Placing. Therefore, the purchasers of the Placing Shares will experience an immediate dilution in unaudited pro forma net tangible asset value to HK$0.15 per Share and HK$0.25 per Share based on the Placing Price of HK$0.60 per Placing Share and HK$1.00 and per Placing Share respectively. Additional funds may be required in the future to finance the expansion or new developments of the business and operations of the Group or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro rata basis to existing Shareholders, the percentage ownership of the Shareholders in the Company may be diluted or such new securities may confer rights and privileges that take priority over those conferred by the Placing Shares.

**Future sales by existing Shareholders of a substantial number of the Shares in the public market could materially and adversely affect the prevailing market price of the Shares**

There is no assurance that the substantial shareholders of the Company or Controlling Shareholders will not dispose of the Shares held by them. The Group cannot predict the effect, if any, of any future sales of the Shares by any substantial shareholder of the Company or Controlling Shareholder may have on the market price of the Shares. Sales of a substantial amount of Shares by any substantial shareholder of the Company or Controlling Shareholder or the issuance of a substantial amount of new Shares by the Company, or the market perception that such sales or issuance may occur, could materially and adversely affect the prevailing market price of the Shares.

**Historical dividends may not be indicative of the amount of future dividend payments or the Group's future dividend policy**

Total dividend of approximately HK$2.4 million and HK$1.5 million was paid during the years ended 31 December 2009 and 2010 respectively. In March 2011 and May 2011, the Group declared and paid interim dividends of HK$16.0 million and HK$7.0 million respectively. The Group's ability to pay dividends or make other distributions to the Shareholders is subject to the future financial performance and cash flow position of the Group. The Group may not be able to distribute dividends to the Shareholders as a result of the abovementioned factors.

Accordingly, the Group's historical dividend distribution should not be used as a reference or basis to determine the level of dividends that may be declared and paid by the Group in the future. The Group may not be able to record profits and have sufficient funds above its funding requirements, other obligations and business plans to declare dividends to the Shareholders.

## RISKS RELATING TO THE STATEMENTS MADE IN THIS PROSPECTUS

### Statistics and facts in this prospectus have not been independently verified

This prospectus includes certain statistics and facts that have been extracted from Government official sources and publications or other sources. The Company believes the sources of these statistics and facts are appropriate for such statistics and facts and has taken reasonable care in extracting and reproducing such statistics and facts. The Company has no reason to believe that such statistics and facts are false or misleading or that any fact has been omitted that would render such statistics and facts false or misleading. These statistics and facts from these sources have not been independently verified by the Company, the Sponsor, the Lead Manager, the Underwriters, any of their respective directors or any other party involved in the Placing and therefore, the Company makes no representation as to the accuracy or completeness of these statistics and facts, as such these statistics and facts should not be unduly relied upon.

## DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purposes of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief:

(a) the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive;

(b) there are no other matters the omission of which would make any statement herein or this prospectus misleading; and

(c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The Placing Shares are offered for subscription solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Placing to give any information, or to make any representation, not contained in this prospectus. Any information or representation not contained herein shall not be relied upon as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors, officers, employees, affiliates and/or representatives or any other person involved in the Placing.

Copies of this prospectus are available, for information purposes only, at the offices of Quam Capital at Room 3208, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong from 4:00 p.m. to 5:00 p.m. on Thursday, 30 June 2011, and from 9:00 a.m. to 5:00 p.m. from Monday, 4 July 2011 to Wednesday, 6 July 2011 (both dates inclusive).

## PLACING SHARES ARE FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Placing which is sponsored by the Sponsor and managed by the Lead Manager. The Placing Shares will be fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement (including but not limited to the Company and the Lead Manager (for itself and on behalf of the Underwriters) agreeing on the Placing Price). For further information about the Underwriters and the Placing and underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

## PLACING PRICE

The Placing Price is expected to be fixed by the Price Determination Agreement between the Lead Manager (for itself and on behalf of the Underwriters) and the Company on the Price Determination Date, which is currently scheduled to be on or before Tuesday, 5 July 2011, or such other date as the parties may agree. For full information relating to the determination of the Placing Price, please refer to the section headed "Structure and Conditions of the Placing" in this prospectus.

## SELLING RESTRICTIONS

No action has been taken to permit any offering of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Placing Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable laws, rules and regulations of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities or as an exemption therefrom.

Each person acquiring the Placing Shares will be required to confirm, or by his/her acquisition of the Placing Shares be deemed to confirm, that he/she is aware of the restrictions on the placing of the Placing Shares described in this prospectus and that he/she is not acquiring, and has not been offered, any such shares in circumstance that contravenes any such restrictions.

Prospective subscribers for the Placing Shares should consult their financial advisers and take legal advice as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction.

## STRUCTURE OF THE PLACING

Details of the structure and conditions of the Placing are set out in the section headed "Structure and Conditions of the Placing" in this prospectus.

## APPLICATION FOR LISTING ON GEM

Application has been made to the Listing Division for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Placing and the Capitalisation Issue.

Under section 44B(1) of the Companies Ordinance, if the permission for the Shares to be listed on GEM pursuant to this prospectus has been refused before the expiration of three weeks from the date of the closing of the Placing or such longer period not exceeding six weeks as may, within the said three weeks, be notified to the Company for permission by or on behalf of the Listing Division, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, the Company must maintain the "minimum prescribed percentage" of 25% of the issued share capital of the Company in the hands of the public (as defined in the GEM Listing Rules).

No part of the Shares or loan capital of the Company is listed, traded or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek listing of, or permission to deal in, any part of the Shares or loan capital on any other stock exchange.

## SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date, or on any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

## DEALINGS AND SETTLEMENT

Dealings in the Shares are expected to commence on Friday, 8 July 2011.

Shares will be traded in board lots of 4,000 Shares and are freely transferable.

The GEM stock code for the Shares is 8179.

The Company will not issue any temporary document of title.

## HONG KONG SHARE REGISTER AND STAMP DUTY

All of the Shares will be registered on the Company's register of members to be maintained in Hong Kong by the share registrar and transfer office, Union Registrars Limited at 18/F., Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

Dealings in the Shares registered in the register of members of the Company will be subject to Hong Kong stamp duty.

Unless determined otherwise by the Company, dividends payable in HK dollars in respect of the Shares will be paid to the Shareholders listed on the Company's Hong Kong branch register of members to be maintained in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder or if joint Shareholders, to the first-named therein in accordance with the Articles.

## PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Placing are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, purchase, holding or disposal of, dealings in, or exercise of any rights in relation to, the Placing Shares. None of the Company, the Directors, the Sponsor, the Underwriters, any of their respective directors, agents or advisers or any other persons involved in the Placing accepts responsibility for any tax effects on or liabilities of any person resulting from the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to, the Placing Shares.

## LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Names of any laws and regulations, governmental authorities, institutions, natural persons or other entities which have been translated into English and included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

## ROUNDING

Any discrepancies in any table or chart between the totals and the sums of the amounts listed therein are due to rounding.

## DIRECTORS

| Name | Residential Address | Nationality |
|---|---|---|
| ***Executive Directors*** | | |
| Mr. Wong Kwan Mo (黃君武) | Flat 2, 11/F, Block B<br>Spring Seaview Terrace<br>33 Castle Peak Road<br>Tuen Mun<br>New Territories<br>Hong Kong | Chinese |
| Ms. Lau Lan Ying (劉蘭英) | Flat 2, 11/F, Block B<br>Spring Seaview Terrace<br>33 Castle Peak Road<br>Tuen Mun<br>New Territories<br>Hong Kong | Chinese |
| ***Independent non-executive Directors*** | | |
| Mr. Yu Ka Ho (余嘉豪) | Flat B, 12/F, Block 4<br>Greenfield Garden<br>Tsing Yi<br>New Territories<br>Hong Kong | Chinese |
| Mr. Li Fu Yeung (李富揚) | Flat G, 4/F<br>Kimberley Mansion<br>15 Austin Avenue<br>Tsim Sha Tsui<br>Kowloon<br>Hong Kong | Chinese |
| Ms. Chiu Man Yee (趙曼而) | Flat 113, 1/F, Block I<br>Telford Garden<br>Kowloon Bay<br>Kowloon<br>Hong Kong | Chinese |

## PARTIES INVOLVED IN THE PLACING

| | |
|---|---|
| **Sponsor** | Quam Capital Limited<br>Room 3208, Gloucester Tower<br>The Landmark<br>11 Pedder Street<br>Central<br>Hong Kong |
| **Bookrunner and Lead Manager** | Quam Securities Company Limited<br>Room 3208, Gloucester Tower<br>The Landmark<br>11 Pedder Street<br>Central<br>Hong Kong |
| **Legal advisers to the Company** | *as to Hong Kong law*<br>ONC Lawyers<br>14th and 15th Floor<br>The Bank of East Asia Building<br>10 Des Voeux Road Central<br>Hong Kong<br><br>*as to Cayman Islands law*<br>Conyers Dill & Pearman<br>Cricket Square<br>Hutchins Drive<br>P.O. Box 2681<br>Grand Cayman<br>KY1-1111<br>Cayman Islands |
| **Legal advisers to the Sponsor and the Underwriters** | *as to Hong Kong law*<br>Pang & Co. in association with Salans LLP<br>Level 76, International Commerce Centre<br>1 Austin Road West<br>Kowloon<br>Hong Kong |
| **Reporting accountant** | PricewaterhouseCoopers<br>22/F, Prince's Building<br>Central<br>Hong Kong |
| **Property valuer** | Ample Appraisal Limited<br>Room 604, Far East Consortium Building<br>121 Des Voeux Central<br>Hong Kong |

| | |
|---|---|
| **Registered office** | Cricket Square<br>Hutchins Drive<br>PO Box 2681<br>Grand Cayman<br>KY1-1111<br>Cayman Islands |
| **Head office, headquarters and principal place of business in Hong Kong registered under Part XI of the Companies Ordinance** | Shop No. 46, Ground Floor<br>Ho Shun Tai Building<br>No. 10 Sai Ching Street<br>Yuen Long<br>New Territories<br>Hong Kong |
| **Company's website** | www.gayety.com.hk<br>*(the information contained in this website does not form part of this prospectus)* |
| **Company secretary** | Mr. Wong Tin King, Richard, *CPA, ACA* |
| **Authorised representatives** | Ms. Lau Lan Ying<br>Flat 2, 11/F, Block B<br>Spring Seaview Terrace<br>33 Castle Peak Road<br>Tuen Mun<br>New Territories<br>Hong Kong<br><br>Mr. Wong Tin King, Richard<br>Room 1, 32/F, Block C<br>Beverly Hill<br>6 Broadwood Road<br>Happy Valley<br>Hong Kong |
| **Compliance officer** | Ms. Lau Lan Ying |
| **Audit committee** | Mr. Yu Ka Ho *(Chairman)*<br>Mr. Li Fu Yeung<br>Ms. Chiu Man Yee |
| **Remuneration committee** | Ms. Lau Lan Ying *(Chairman)*<br>Mr. Yu Ka Ho<br>Mr. Li Fu Yeung |

| | |
|---|---|
| **Share registrar and transfer office in Hong Kong** | Union Registrars Limited<br>18/F., Fook Lee Commercial Centre<br>Town Place<br>33 Lockhart Road<br>Wanchai<br>Hong Kong |
| **Compliance adviser** | Quam Capital Limited<br>Room 3208, Gloucester Tower<br>The Landmark<br>11 Pedder Street<br>Central<br>Hong Kong |
| **Principal bankers** | Hang Seng Bank Limited<br>83 Des Voeux Road Central<br>Hong Kong<br><br>DBS Bank (Hong Kong) Limited<br>G/F<br>The Center<br>99 Queen's Road Central<br>Hong Kong |

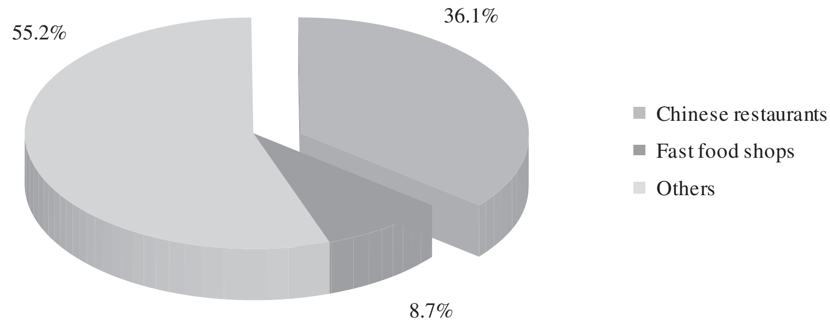
*Certain information and statistics set out in this section and elsewhere in this prospectus has been derived from various official Government sources, which may not be consistent with other information available and should not be unduly relied upon. This section also contains certain information and statistics that have been extracted from various private publications. The Directors believe that the private publication sources of information and statistics are appropriate. The Directors have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information or statistics false or misleading. While the Group has exercised reasonable care in reproducing information and statistics contained in this section, they have not been independently verified by the Directors, the Sponsor, the Lead Manager, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives or any person involved in the Placing. No representation is given as to the accuracy of such information and statistics.*

## RESTAURANT INDUSTRY IN HONG KONG

"Dining is the most important value among the general populace" ("民以食為天") is a rooted belief in the Chinese culture. Renowned as the culinary capital of Asia, and the breed of both Eastern and Western culture, Hong Kong boasts more than 12,000 restaurants by the end of 2010. According to the household expenditure survey conducted by the Census and Statistics Department of the Government for the purpose of assessing the composite consumer price index released in April 2011, approximately 27.5% of the expenditure of residents in Hong Kong are spent on food, among which approximately 17.1% of the spending represents meals bought away from home.

According to the data from the Census and Statistics Department of the Government, among the established restaurants in Hong Kong, approximately 36.1% were Chinese restaurants.

The following chart illustrates the segmentation of the restaurant industry in Hong Kong in 2009:




*Source: Census and Statistics Department of the Government*

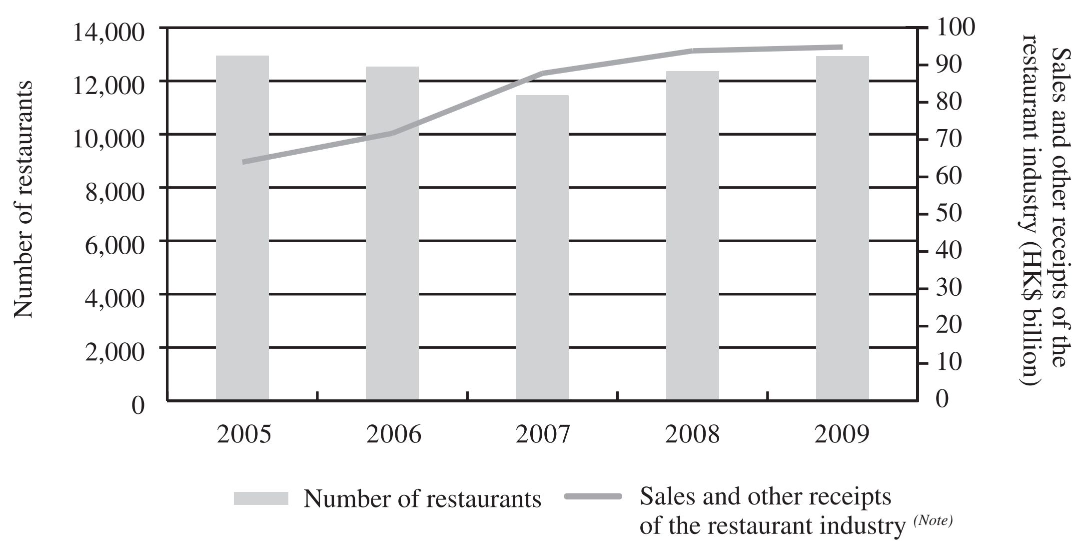
Most of the Chinese restaurants specialise in one or more of the following cuisines, such as Cantonese, Chiu Chow, Peking, Shanghainese, Sichuan and Hunan, Chinese Vegetarian or Chinese Festive Foods and Chinese Wine. Cantonese cuisine, being one of the eight major cuisines in the Chinese culture, is one of the favorites among locals and tourists.

**Establishment of restaurants in Hong Kong**

The number of restaurants established in Hong Kong remained relatively stable, which slightly dropped from approximately 12,944 in 2005 to approximately 12,939 in 2009, among which, the number of Chinese restaurants established in Hong Kong increased from approximately 4,465 to approximately 4,675. Establishment was defined as an economic unit which engages, under a single ownership or control, in one or predominantly one kind of economic activity at a single physical location. The sales and other receipts in the restaurant industry increased from approximately HK$63,948 million in 2005 to approximately HK$94,814 million in 2009, representing a CAGR of approximately 10.3%.

The following chart illustrates the number of restaurants in Hong Kong and the sales and other receipts of the restaurant industry from years 2005 to 2009:

**Number of restaurants in Hong Kong and sales and other receipts of the restaurant industry from years 2005 to 2009**



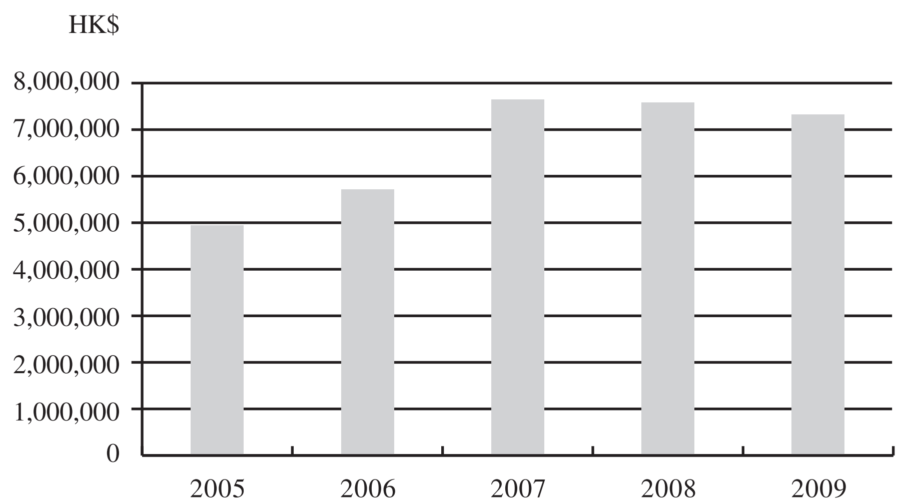

*Note:* Other receipts were defined by the Census and Statistics Department of the Government as the rental income from letting or subletting land and premises and income other than sales and receipts for services rendered.

*Source:* *Census and Statistics Department of the Government*

While the sales and other receipts of the restaurant industry experienced a higher CAGR than the number of restaurants established from year 2005 to 2009, the restaurants benefited from the economy recovery and earned an average sales and other receipts per establishment of approximately HK$4.9 million in 2005 to approximately HK$7.3 million in 2009, representing a CAGR of 10.5%.

The following chart illustrates the average sales and other receipts per establishment from year 2005 to 2009:

**Average sales and other receipts per establishment from years 2005 to 2009**




*Source: Census and Statistics Department of the Government*

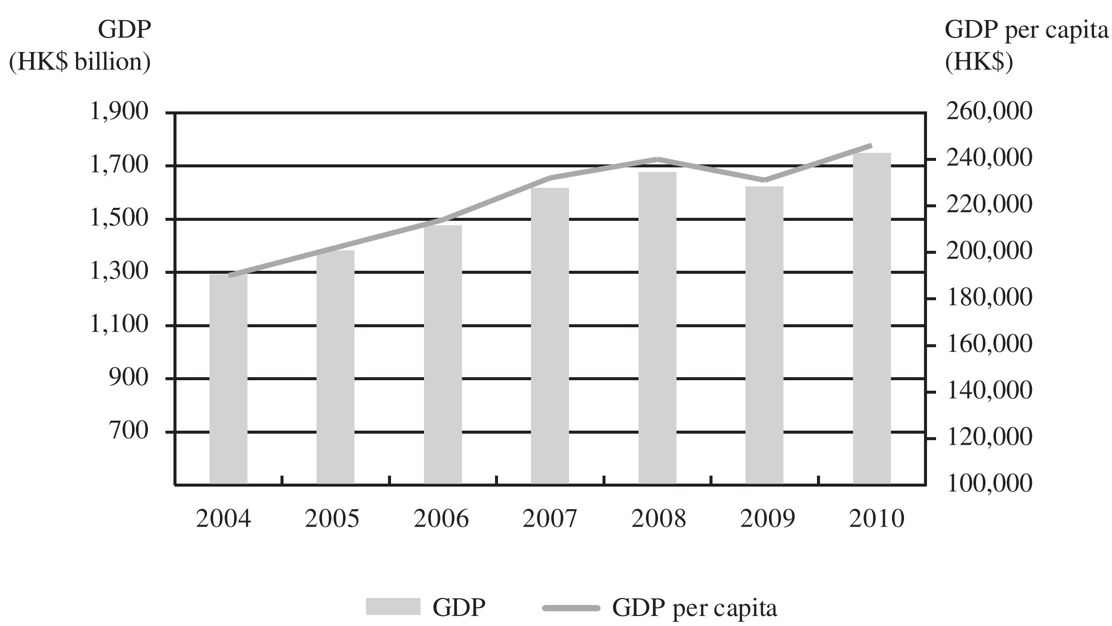
## ECONOMY IN HONG KONG

### GDP

Apart from the economic downturn resulting from the global financial crisis in 2008, the economy in Hong Kong has maintained steady and stable growth in recent years since 2004. According to the Census and Statistics Department of the Government, the GDP in Hong Kong grew from approximately HK$1,292 billion in 2004 to approximately HK$1,748 billion in 2010, representing a CAGR of approximately 5.2%. The GDP per capita increased from approximately HK$190,000 in 2004 to approximately HK$246,000 in 2010, representing a CAGR of 4.4%.

The following table and chart illustrate the growth trend of the GDP and GDP per capita in Hong Kong from years 2004 to 2010:

**Growth trend of the GDP and GDP per capita in Hong Kong from years 2004 to 2010**




| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| GDP *(HK$ billion)* | 1,292 | 1,383 | 1,475 | 1,616 | 1,677 | 1,622 | 1,748 |
| Nominal GDP growth *(%)* | 4.6% | 7.0% | 6.7% | 9.6% | 3.8% | –3.3% | 7.8% |
| GDP per capita *(HK$)* | 190,000 | 202,000 | 214,000 | 232,000 | 240,000 | 231,000 | 246,000 |

*Source: Census and Statistics Department of the Government*

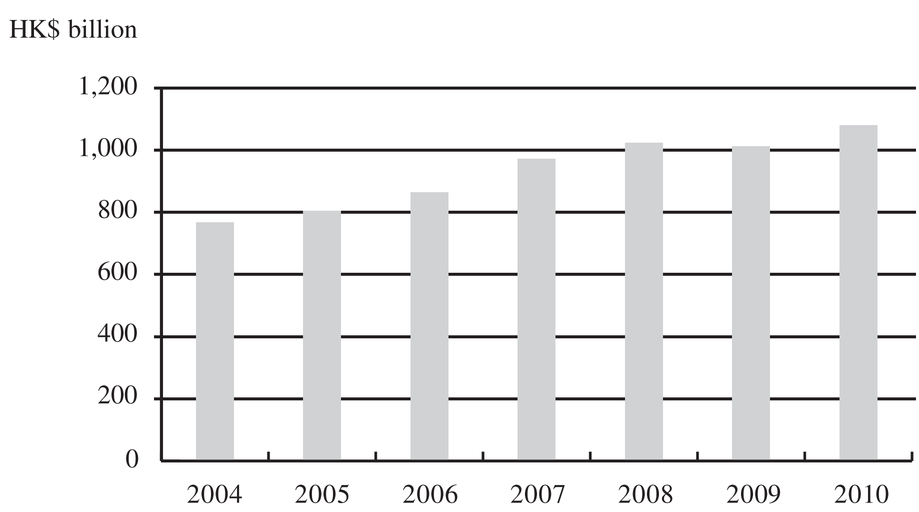
**Private consumption**

Residents in Hong Kong spend considerable amount of their income on food. According to the household expenditure survey conducted by the Census and Statistics Department of the Government for the purpose of assessing the composite consumer price index released in April 2011, approximately 27.5% of the expenditure of residents in Hong Kong was spent on food, which ranks the second after housing expenses of approximately 31.7%. Among the expenditure spent on food, approximately 17.1% of the spending represents meals bought away from home. Therefore, volatility in the private consumption in Hong Kong has a direct impact on the restaurant industry.

Following the Asia financial crisis in 1997 and the end of the SARS epidemic in 2004, the economy of Hong Kong swiftly rebounded from recession owing to the surge in private consumption and expenditure. The private consumption in Hong Kong has been increasing steadily in recent years. Notwithstanding the effects of the global financial crisis which brought the private consumption down by approximately 1.0% in 2009, the private consumption in Hong Kong grew from approximately HK$767.9 billion in 2004 to approximately HK$1,079.5 billion in 2010, representing a CAGR of approximately 5.8%.

The following chart illustrates the private consumption in Hong Kong from years 2004 to 2010:

**Private consumption in Hong Kong from years 2004 to 2010**




*Source: Census and Statistics Department of the Government*

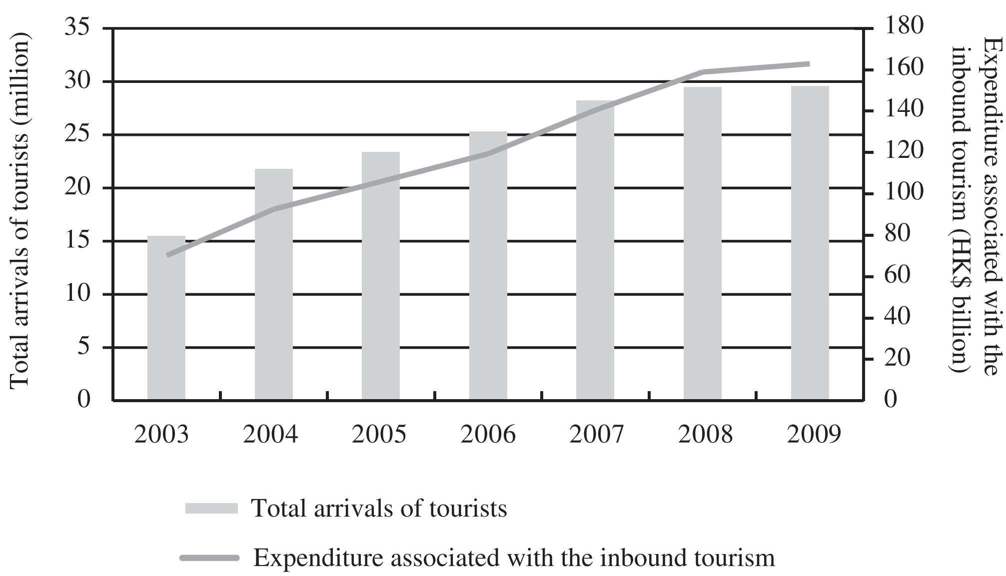
**Growth of the tourism**

Financial services, trading and logistics, tourism, and producer and professional services are the four key industries in the Hong Kong economy. They have been the driving forces of Hong Kong's economic growth, providing impetus to growth of other sectors and creating employment. Restaurant industry is among one of the major segments in the tourism industry.

Hong Kong is one of the favorite cities for tourists. Hong Kong was ranked 7th among the 50 major cities for the most delicious food category according to the 2009 Anholt-GfK Roper City Brands Index™. The total arrivals of tourists in Hong Kong rose from approximately 15.5 million in 2003 to approximately 29.6 million in 2009, representing a CAGR of approximately 11.4%. The contribution from the expenditure associated with the inbound tourism increased from approximately HK$70.2 billion in 2003 to approximately HK$162.9 billion in 2009.

The following chart illustrates the total arrivals of tourists and the expenditure associated with the inbound tourism in Hong Kong from years 2003 to 2009.

**Total arrivals of tourists and the expenditure associated with the inbound tourism in Hong Kong from years 2003 to 2009**




*Source: Census and Statistics Department of the Government*

The constant surge in the arrivals of tourists in Hong Kong in recent years provided considerable contribution to the restaurant industry. The contribution from tourism expenditure in 2009 increased more than double from that of 2003, which reached approximately HK$162.9 billion and remained a major driver for the growth of the restaurant industry.

## RELATIONSHIP BETWEEN THE RESTAURANT INDUSTRY AND THE ECONOMY IN HONG KONG

It is commonly known that the prosperity in the restaurant industry is associated with the performance of the economy in Hong Kong. With approximately HK$94,814 million total sales and other receipts in the restaurant industry in 2009, the industry contributes to approximately 5.8% of the total GDP of Hong Kong in the same year.

The restaurant industry also supports the economy in Hong Kong through employment. According to the quarterly report of employment and vacancies statistics issued by the Census and Statistics Department of the Government in March 2011, the total number of persons engaged in food and beverage services reached approximately 222,000 by the end of December 2010, representing approximately 8.7% of the total number of employment in Hong Kong (other than those in the civil service).

**Number of persons engaged in food and beverage services**

| | **As at 31 December** | | | |
|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **2010** |
| Food and beverage services | 207,129 | 207,301 | 215,186 | 221,902 |
| Others | 2,248,790 | 2,261,570 | 2,289,464 | 2,337,338 |
| Total* | 2,455,919 | 2,468,871 | 2,504,650 | 2,559,240 |

* Figures relate only to those industries covered in the employment and vacancies statistics issued by the Census and Statistics Department of the Government which may not be exhaustive.

*Source: Census and Statistics Department of the Government*

With approximately 8.7% of the total number of employment in Hong Kong (other than those in civil service) engaging in the food and beverages services, the restaurant industry is significantly related to the overall performance of Hong Kong's economy. The restaurant industry in Hong Kong depends upon, among others, (i) the GDP in Hong Kong; (ii) the private consumption in Hong Kong; and (iii) the growth of the tourism. Despite the intense competition, the restaurants in Hong Kong enjoyed growth in the sales and other receipts per establishment, partly due to the generally positive outlook and economy recovery. Any surge or plump in the consumer spending power in Hong Kong would inevitably have a related impact on the restaurant industry in the same direction.

## HISTORY AND DEVELOPMENT

### Business history

In October 2006, Mr. Wong KM founded the Group by establishing 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 the Directors believe are not common in Hong Kong nowadays.

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 local reputation for serving 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 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, which the Directors believe to be one of the world's most well-known and influential restaurant guides to date.

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 for large-scale events, the Group decided to further develop its business and diversify its restaurant portfolio by adopting a new branding strategy. The major step will include the proposed 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.

Each of the Group's restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家) has been 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.

In March 2011, the U Favorite Food Award (我最喜愛的廣東菜館) was awarded to the Group's restaurants under *Red Seasons Aroma Restaurant* (季季紅風味酒家).

**Corporate history**

A summary of the corporate history of each existing member of the Group is set out below:

***Tin Ho***

On 14 December 1979, Tin Ho was incorporated in Hong Kong with limited liability and an authorised share capital of HK$800,000 divided into 800 shares of HK$1,000. It is principally engaged in the operation and management of Lam Tei Red Seasons.

At the time of incorporation, the entire issued share capital of Tin Ho was owned as to 50% (represented by one share of Tin Ho) by an Independent Third Party and 50% (represented by one share of Tin Ho) by another Independent Third Party. From the date of incorporation and up to 30 September 2006, shares of Tin Ho had been allotted and issued and/or transferred to the aforesaid Independent Third Parties and other Independent Third Parties. By 30 September 2006, each of these Independent Third Parties (collectively the "**Past Shareholders**" and each a "**Past Shareholder**") had disposed of all of its shareholding interests in Tin Ho and ceased to be a shareholder of Tin Ho. Save for being the passive investor of Tin Ho in 1998 and 1999 as described below, Mr. Wong KM had not been involved in the business operation of Tin Ho from its establishment in 1979 and up to 30 September 2006.

On 20 March 1998, Mr. Wong KM acquired 96 shares of Tin Ho from a Past Shareholder and 140 shares of Tin Ho from a Past Shareholder at an aggregate consideration of HK$1.2 million, with reference to the then total investment cost of the restaurant, as a passive investor in envisioning the future growth of Tin Ho with respect to its restaurant operation in the region. After such acquisitions, Mr. Wong KM owned a total of 236 shares of Tin Ho. On 30 April 1999, Mr. Wong KM transferred 153 shares of Tin Ho to a Past Shareholder and 83 shares of Tin Ho to a Past Shareholder at an aggregate consideration of HK$1.2 million, with reference to the original acquisition cost of the shares, to pursue other investment opportunities. Following such transfers of a total of 236 shares of Tin Ho and up to 28 July 2009, Mr. Wong KM ceased to hold any direct shareholding interests in Tin Ho.

On 30 September 2006, Queenmax acquired 324 shares of Tin Ho from a Past Shareholder at a consideration of HK$283,500 and 156 shares of Tin Ho from a Past Shareholder at a consideration of HK$136,500 with reference to the then total investment cost of the restaurant in the anticipation of improving the operation and management of Tin Ho after gaining controlling interest. After such acquisitions, Queenmax owned a total of 480 shares of Tin Ho. On 28 July 2009, Queenmax transferred all its shares of Tin Ho to Mr. Wong KM, the sole shareholder of Queenmax at a consideration of HK$1.00. Following such transfer, Mr. Wong KM became the owner of 480 shares of Tin Ho, representing 60% of its entire issued share capital.

On 30 September 2006, (a) Mr. Chan Mau Kam acquired 160 shares of Tin Ho, representing 20% of its entire issued share capital, from a Past Shareholder at a consideration of HK$140,000; (b) Mr. Chan Wai Kam acquired a total of 80 shares of Tin Ho, representing 10% of its entire issued share capital, from certain Past Shareholders at a total consideration of HK$70,000; and (c) Mr. Chan Chu Hung acquired 80 shares of Tin Ho, representing 10% of its entire issued share capital, from a Past Shareholder at a consideration of HK$70,000 with reference to the then total investment cost of the restaurant. Mr. Chan Mau Kam and Mr. Chan Wai Kam became acquainted with Mr. Wong KM as they were practitioner in the same industry. Apart from being a minority shareholder of each of Sencas and Tin Ho, Mr. Chan Mau Kam has been employed as a consultant of Lam Tei Red Seasons in the Group during the Track Record Period. Mr. Chan Chu Hung had been a customer of Wong Yuen Hing and was involved in the restaurant operation of Tin Ho at the time when Mr. Wong KM was a shareholder of Tin Ho in 1998 and 1999.

Save as disclosed above, Mr. Chan Mau Kam, Mr. Chan Wai Kam and Mr. Chan Chu Hung do not have any past or present relationship with the Group, its Directors, its Shareholders, member of senior management and their respective associates, and each of them is an Independent Third Party.

Following such acquisitions, Mr. Chan Mau Kam, Mr. Chan Wai Kam and Mr. Chan Chu Hung became the owners of a total of 320 shares of Tin Ho, representing 40% of its entire issued share capital. Their shareholding interests in Tin Ho remained as such up to the Latest Practicable Date.

On 17 June 2011, Tin Ho was owned as to 60% by GR Holdings when it acquired all the shares of Tin Ho owned by Mr. Wong KM as described in the paragraph headed "Reorganisation" in this section.

***Jubilant***

On 8 August 2006, Jubilant was incorporated in Hong Kong with limited liability and an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00. It is the previous holder of the general restaurant licence of Plentiful Delight Banquet Restaurant. After the transfer of such licence to Gayety in March 2011, Jubilant is principally engaged in the Group's central procurement operations.

At the time of incorporation, the entire issued share capital of Jubilant was wholly owned (represented by one share of Jubilant) by Ms. Lau LY.

On 17 June 2011, Jubilant became a wholly-owned subsidiary of GR Holdings when GR Holdings acquired the one share of Jubilant owned by Ms. Lau LY as described in the paragraph headed “Reorganisation” in this section.

***Gayety***

On 19 August 2006, Gayety was incorporated in Hong Kong with limited liability and an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 par value each. It is principally engaged in the operation and management of Plentiful Delight Banquet Restaurant.

At the time of incorporation, the entire issued share capital of Gayety was wholly owned (represented by one share of Gayety) by Ms. Lau LY.

On 17 June 2011, Gayety became a wholly-owned subsidiary of GR Holdings when GR Holdings acquired the one share of Gayety owned by Ms. Lau LY as described in the paragraph headed “Reorganisation” in this section.

***Sencas***

On 11 September 2006, Sencas was incorporated in Hong Kong with limited liability and an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 par value each. It had operated Lam Tei Red Seasons until 1 January 2011 on which all business operations of Lam Tei Red Seasons were transferred to Tin Ho on 1 January 2011. After the completion of such transfer of business operations, Sencas is principally engaged in the provision of staff training for the Group.

At the time of incorporation, the entire issued share capital of Sencas was wholly owned (represented by one share of Sencas) by an Independent Third Party.

On 20 October 2006, Queenmax was allotted and issued 5,999 shares of Sencas at a consideration of HK$5,999. On 23 October 2006, Queenmax acquired one share of Sencas from the aforementioned Independent Third Party at a consideration of HK$1.00. Following such allotment and acquisition, Queenmax owned a total of 6,000 shares of Sencas. On 27 May 2009, Queenmax transferred its entire shareholding interests in Sencas to Mr. Wong KM at a consideration of HK$6,000. The consideration of such transfer was based on the nominal value of the transferred shares. Following such transfer, Mr. Wong KM became the owner of 6,000 shares of Sencas, representing 60% of its entire issued share capital.

On 20 October 2006, (a) Mr. Chan Mau Kam was allotted and issued 2,000 shares of Sencas at a consideration of HK$2,000, representing 20% of its entire issued share capital; (b) Mr. Chan Wai Kam was allotted and issued 1,000 shares of Sencas at a consideration of HK$1,000, representing 10% of its entire issued share capital; and (c) Mr. Chan Chu Hung was allotted and issued 1,000 shares of Sencas at a consideration of HK$1,000, representing 10% of its entire issued share capital. The consideration of such allotments were based on the nominal value of the allotted shares. Following such allotments, Mr. Chan Mau Kam, Mr. Chan Wai Kam and Mr. Chan Chu Hung became the owner of a total of 4,000 shares of Sencas, representing 40% of its entire issued share capital. Their shareholding interests in Sencas remained as such up to the Latest Practicable Date.

On 17 June 2011, Sencas was owned as to 60% by GR Holdings when it acquired all the shares of Sencas owned by Mr. Wong KM as described in the paragraph headed "Reorganisation" in this section.

***Red Seasons***

On 13 August 2009, Red Seasons was incorporated in Hong Kong with limited liability and an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00. It is principally engaged in the operation and management of Tuen Mun Red Seasons.

At the time of incorporation, the entire issued share capital of Red Seasons was wholly owned (represented by one share of Red Seasons) by Mr. Wong KM.

On 17 November 2009, Mr. Sin was allotted and issued one share of Red Seasons at a consideration of HK$1.00 based on its nominal value. On the same day, he executed the Deed of Trust, pursuant to which the said share was held by Mr. Sin on trust for Ms. Lau LY. Mr. Sin is an employee of the Group who is well-trusted by Ms. Lau LY. As such, Mr. Sin has been appointed as a director of Red Seasons and has been assisting Ms. Lau LY in managing the leasing matters of Tuen Mun Red Seasons. As it was required by the landlord of Tuen Mun Red Seasons that a guarantee be given by a major shareholder and director, it was decided that Mr. Sin would give the guarantee. To satisfy the requirements in relation to the guarantee, Mr. Sin held one share of Red Seasons on trust for Ms. Lau LY pursuant to the Deed of Trust. The Company's Hong Kong legal advisers are of the view that the trust arrangement as between Mr. Sin and Ms. Lau LY is legal and valid.

Following such allotment and execution of the Deed of Trust, Red Seasons was owned as to 50% (represented by one share of Red Seasons) by Mr. Wong KM and 50% (represented by one share of Red Seasons) by Mr. Sin on trust for Ms. Lau LY.

On 3 June 2011, pursuant to the Reorganisation, Ms. Lau LY and Mr. Sin executed a deed for the release and termination of the Deed of Trust and an instrument of transfer for the transfer back of the legal title of the one share of Red Seasons from Mr. Sin to Ms. Lau LY at nil consideration, pursuant to which Ms. Lau LY became the legal and beneficial owner of one share of Red Seasons. Following such transfer of share, Red Seasons was owned as to 50% (represented by one share of Red Seasons) by Mr. Wong KM and 50% (represented by one share of Red Seasons) by Ms. Lau LY.

On 17 June 2011, Red Seasons became a wholly-owned subsidiary of GR Holdings when GR Holdings acquired all the shares of Red Seasons owned by Mr. Wong KM and Ms. Lau LY, respectively, as described in the paragraph headed "Reorganisation" in this section.

***RS Corporation***

On 15 December 2009, RS Corporation was incorporated in Hong Kong with limited liability and an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 par value each. It is principally engaged in the operation and management of Shatin Red Seasons.

At the time of incorporation, RS Corporation was owned as to 50% (represented by one share of RS Corporation) by Mr. Wong KM and 50% (represented by one share of RS Corporation) by Ms. Lau LY.

On 17 June 2011, RS Corporation became a wholly-owned subsidiary of GR Holdings when GR Holdings acquired all the shares of RS Corporation owned by Mr. Wong KM and Ms. Lau LY, respectively, as described in the paragraph headed "Reorganisation" in this section.

***RS Catering***

On 26 January 2010, RS Catering was incorporated in Hong Kong with limited liability and an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 par value each. It is principally engaged in the operation and management of Tsuen Wan Red Seasons.

At the time of incorporation, RS Catering was owned as to 50% (represented by one share of RS Catering) by Mr. Wong KM and 50% (represented by one share of RS Catering) by Ms. Lau LY.

On 17 June 2011, RS Catering became a wholly-owned subsidiary of GR Holdings when GR Holdings acquired all the shares of RS Catering owned by Mr. Wong KM and Ms. Lau LY, respectively, as described in the paragraph headed "Reorganisation" in this section.

***GR Holdings***

On 30 September 2010, GR Holdings was incorporated in Samoa with limited liability and an authorised share capital of US$1,000,000 divided into 1,000,000 shares of US$1.00 par value each. It is an investment holding company.

At the time of incorporation, one share of GR Holdings was subscribed by a nominee company which was an Independent Third Party at the consideration of US$1.00. On 30 September 2010, the said one Share held by the nominee company was transferred to Mr.

Wong KM at the consideration of US$1.00 and one share was allotted and issued to Ms. Lau LY at the consideration of US$1.00. Following such transfer and allotment, the entire issued share capital of GR Holdings was owned as to 50% (represented by one share of GR Holdings) by Mr. Wong KM and 50% (represented by one share of GR Holdings) by Ms. Lau LY.

On 3 June 2011, a total of 49 shares of GR Holdings, credited as fully paid, and a total of 49 shares of GR Holdings, credited as fully paid, were allotted and issued to Mr. Wong KM and Ms. Lau LY respectively, as described in the paragraph headed "Reorganisation" in this section. Following such allotment and issue of shares, the entire issued share capital of GR Holdings remained owned as to 50% (represented by 50 shares of GR Holdings) by Mr. Wong KM and 50% (represented by 50 shares of GR Holdings) by Mr. Lau LY.

On 25 June 2011, GR Holdings became a wholly-owned subsidiary of the Company when the Company acquired the entire issued share capital of GR Holdings owned by Mr. Wong KM and Ms. Lau LY respectively, as described in the paragraph headed "Reorganisation" in this section.

***The Company***

On 10 February 2011, the Company was incorporated in the Cayman Islands with limited liability and an authorised share capital of HK$380,000 divided into 38,000,000 Shares of HK$0.01 par value each.

At the time of incorporation, one Share was subscribed by a nominee company which was an Independent Third Party as nil paid Share.

On 10 February 2011, the said one nil paid Share held by the nominee company was transferred to KMW. Following such transfer, the entire issued share capital (represented by one nil paid Share) of the Company was owned by KMW. On 24 June 2011, the said one nil paid Share was fully paid up by KMW and such nil paid Share was credited as one fully paid Share of HK$0.01 par value.

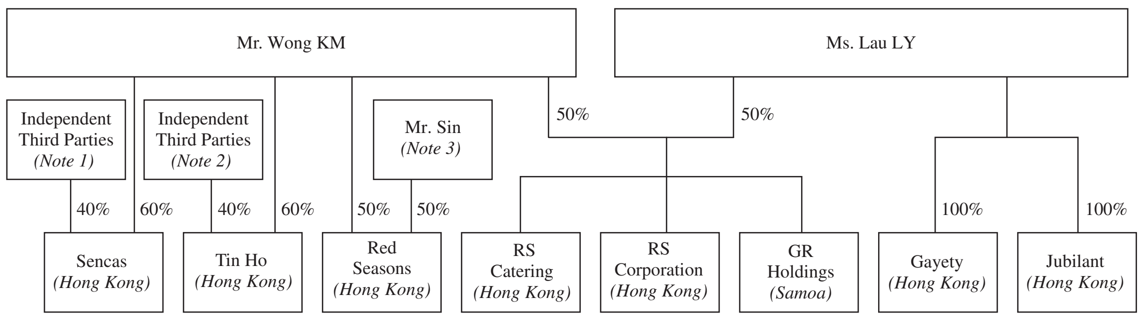
On 25 June 2011, the Company allotted and issued 37,999,999 Shares, credited as fully paid, to KMW as described in the paragraph headed "Reorganisation" in this section. Following such allotment and issue of Shares, the entire issued share capital of the Company remained wholly-owned by KMW (represented by 38,000,000 Shares).

On 25 June 2011, the authorized share capital of the Company was increased from HK$380,000 to HK$10,000,000 by the creation of 962,000,000 new Shares.

In preparation for the Listing, the Company became the holding company of the Group pursuant to the Reorganisation.

## CORPORATE STRUCTURE IMMEDIATELY PRIOR TO REORGANISATION

The following diagram illustrates the shareholding structure of the Group immediately prior to the Reorganisation:




*Notes:*

(1) The Independent Third Parties are Mr. Chan Mau Kam, Mr. Chan Wai Kam and Mr. Chan Chu Hung, holding 20%, 10% and 10% of the entire issued share capital of Sencas respectively.

(2) The Independent Third Parties are Mr. Chan Mau Kam, Mr. Chan Wai Kam and Mr. Chan Chu Hung, holding 20%, 10% and 10% of the entire issued share capital of Tin Ho respectively.

(3) 50% of the entire issued share capital of Red Seasons was held by Mr. Sin on trust for Ms. Lau LY under the Deed of Trust.

## REORGANISATION

The companies comprising the Group underwent the Reorganisation in preparation for the Listing. The principal steps involved in the Reorganisation are summarised below:

### (1) Termination of the Deed of Trust

On 3 June 2011, Ms. Lau LY and Mr. Sin executed a deed for the release and termination of the Deed of Trust and an instrument of transfer for the transfer back of the legal title of the one share of Red Seasons from Mr. Sin to Ms. Lau LY at nil consideration, pursuant to which Ms. Lau LY became the legal and beneficial owner of one share of Red Seasons, representing 50% of the entire issued share capital of Red Seasons.

**(2) Acquisition of Tin Ho, Jubilant, Gayety, Sencas, Red Seasons, RS Corporation and RS Catering by GR Holdings**

On 3 June 2011, GR Holdings as the purchaser, and, Mr. Wong KM and Ms. Lau LY as the vendors, executed a share acquisition agreement and relevant instruments of transfer and bought and sold notes for acquiring all the shares owned by Mr. Wong KM and Ms. Lau LY in each of Tin Ho, Jubilant, Gayety, Sencas, Red Seasons, RS Corporation and RS Catering by GR Holdings (collectively, the "**Acquisitions**"). In consideration of and in exchange for which, GR Holdings allotted and issued a total of 49 shares of GR Holdings, credited as fully paid, to Mr. Wong KM and a total of 49 shares of GR Holdings, credited as fully paid, to Ms. Lau LY.

Upon the completion under the said share acquisition agreement, which took place on its date of execution, the entire issued share capital of GR Holdings was owned as to 50% (represented by 50 shares of GR Holdings) by Mr. Wong KM and 50% (represented by 50 shares of GR Holdings) by Mr. Lau LY.

Upon the completion under the said share acquisition agreement, which took place on its date of execution, and the stamping of the instruments of transfer and bought and sold notes in respect of the Acquisitions, which took place on 17 June 2011, (a) GR Holdings became the sole legal and beneficial owner of the entire issued share capital of each of Jubilant, Gayety, Red Seasons, RS Corporation and RS Catering, and (b) each of Tin Ho and Sencas was owned as to 60% (represented by 480 shares of Tin Ho and 6,000 shares of Sencas respectively) by GR Holdings.

**(3) Incorporation of the Company**

On 10 February 2011, the Company was incorporated in the Cayman Islands with limited liability and an authorised share capital of HK$380,000 divided into 38,000,000 Shares of HK$0.01 par value each.

At the time of incorporation, one Share was subscribed by a nominee company which was an Independent Third Party as nil paid Share.

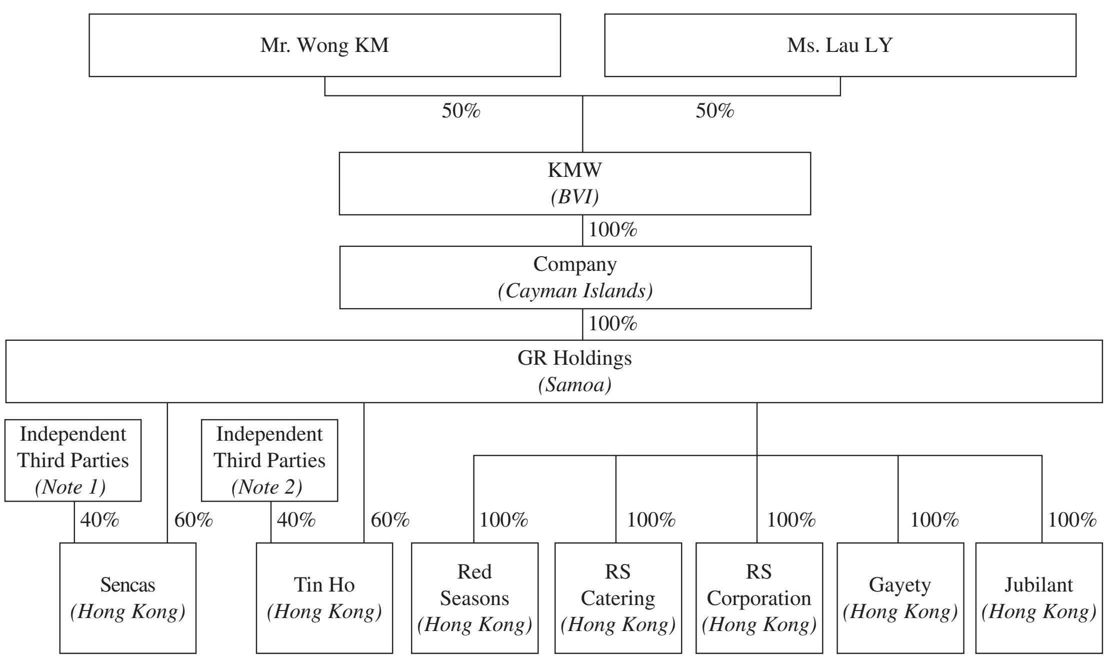
On 10 February 2011, the said one nil paid Share held by the nominee company was transferred to KMW. Following such transfer, the entire issued share capital (represented by one nil paid Share) of the Company was owned by KMW.

**(4) Acquisition of GR Holdings by the Company**

On 25 June 2011, the Company as the purchaser, Mr. Wong KM and Ms. Lau LY as the vendors, and KMW executed a share acquisition agreement and relevant instruments of transfer for acquiring all the shares owned by Mr. Wong KM and Ms. Lau LY in GR Holdings by the Company. In consideration of and in exchange for which, (a) the Company procured KMW to allot and issue one share of US$1.00 par value of KMW, credited as fully paid, to Mr. Wong KM and one share of US$1.00 par value of KMW, credited as fully paid, to Ms. Lau LY; and (b) the Company allotted and issued 37,999,999 Shares, credited as fully paid, to KMW.

Upon the completion under the said share acquisition agreement, which took place on its date of execution, (a) the entire issued share capital of KMW remained owned as to 50% (represented by two shares of KMW) by Mr. Wong KM and 50% (represented by two shares of KMW) by Ms. Lau LY; (b) the entire issued share capital (represented by 38,000,000 Shares) of the Company remained wholly-owned by KMW; and (c) the Company became the sole legal and beneficial owner of the entire issued share capital (represented by 100 shares of GR Holdings) of GR Holdings.

The following diagram illustrates the shareholding structure of the Group immediately after the completion of the Reorganisation:



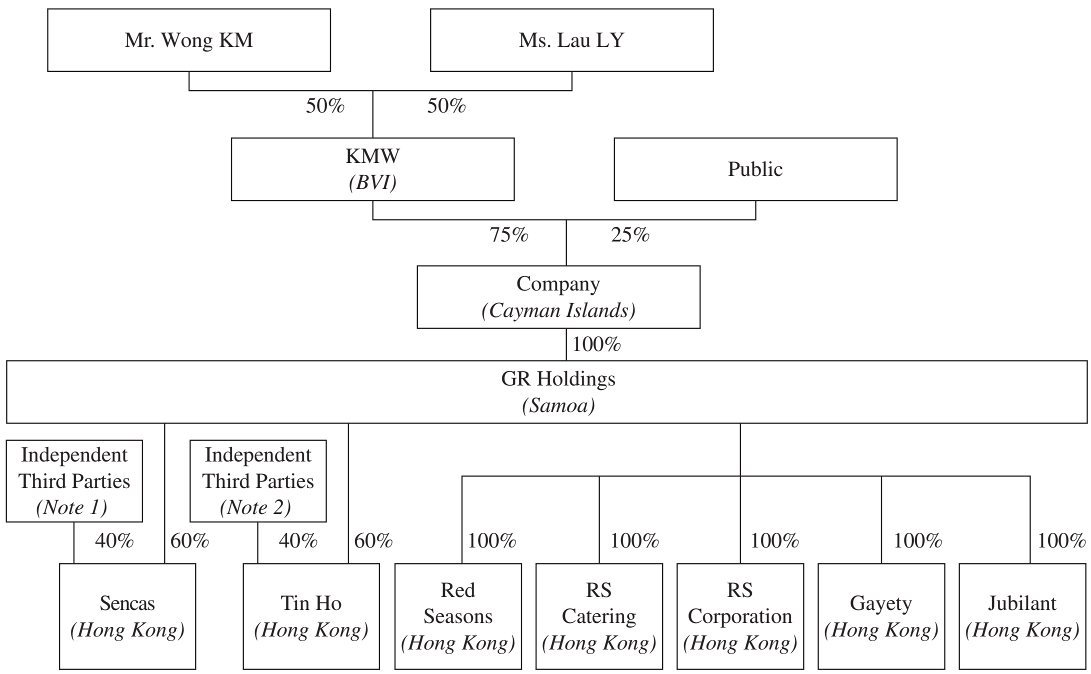

*Notes:*

(1) The Independent Third Parties are Mr. Chan Mau Kam, Mr. Chan Wai Kam and Mr. Chan Chu Hung, holding 20%, 10% and 10% of the entire issued share capital of Sencas respectively.

(2) The Independent Third Parties are Mr. Chan Mau Kam, Mr. Chan Wai Kam and Mr. Chan Chu Hung, holding 20%, 10% and 10% of the entire issued share capital of Tin Ho respectively.

## CORPORATE STRUCTURE FOLLOWING THE PLACING AND THE CAPITALISATION ISSUE

The following diagram illustrates the shareholding structure of the Group immediately following completion of the Placing and the Capitalisation Issue:




*Notes:*

(1) The Independent Third Parties are Mr. Chan Mau Kam, Mr. Chan Wai Kam and Mr. Chan Chu Hung, holding 20%, 10% and 10% of the entire issued share capital of Sencas respectively.

(2) The Independent Third Parties are Mr. Chan Mau Kam, Mr. Chan Wai Kam and Mr. Chan Chu Hung, holding 20%, 10% and 10% of the entire issued share capital of Tin Ho respectively.

## CAPITALISATION ISSUE

Before the Placing, the authorised share capital of the Company was increased from HK$380,000 to HK$10,000,000 by the creation of 962,000,000 new Shares pursuant to a resolution passed by the sole Shareholder on 25 June 2011.

Conditional upon the share premium account of the Company being credited as a result of the Placing, an appropriate sum will be capitalised and applied in paying up in full such number of Shares in the Company to be allotted and issued to the Shareholders whose names appear on the register of members of the Company at 4:00 p.m. on 25 June 2011 in proportion to their then existing respective shareholdings so that the number of Shares so allotted and issued, when aggregated with the number of shares in the Company already owned by them, will constitute not more than 75% of the issued share capital of the Company.

## 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.

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 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.

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 | |
| | *HK$'000* | *% of total revenue* | *HK$'000* | *% of total revenue* |
| 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 |
| Total | 126,476 | 100.0 | 210,320 | 100.0 |

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.

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.

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.

**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.

**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.

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.

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 Approximate number of customer visit | 2009 Number of operation days | 2010 Approximate number of customer visit | 2010 Number of operation days |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Plentiful Delight Banquet Restaurant | *Plentiful Delight Banquet* (喜尚嘉喜宴會廳) | 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 |

| 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 Approximate number of customer visit | 2009 Number of operation days | 2010 Approximate number of customer visit | 2010 Number of operation days |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 4. Shatin Red Seasons | *Red Seasons Aroma Restaurant* (季季紅風味酒家) | Shop No. 33, Level 1 and Level 2, Garden Rivera, Nos. 20-30 Tai Chung Kiu 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.

**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** | |
| | *HK$'000* | *% of total* | *HK$'000* | *% of total* |
| Banquet and dining services for large-scale events | 42,705 | 50.7 | 45,600 | 49.7 |
| Other dining services | 41,597 | 49.3 | 46,115 | 50.3 |
| Total revenue | 84,302 | 100.0 | 91,715 | 100.0 |

***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 $km^2$ 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.

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 events[1]. 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 delicacies[2]. 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.

***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 delicacies[3] 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.

**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 $km^2$ 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 $km^2$ 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.

***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 $km^2$ 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 stoves[5]. To promote and reinforce the brand image of a traditional Chinese restaurant serving ancient Chinese cuisine[6] utilising traditional recipes and cooking techniques, the restaurant is decorated in a historical Chinese style[7]. 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 colour[8].

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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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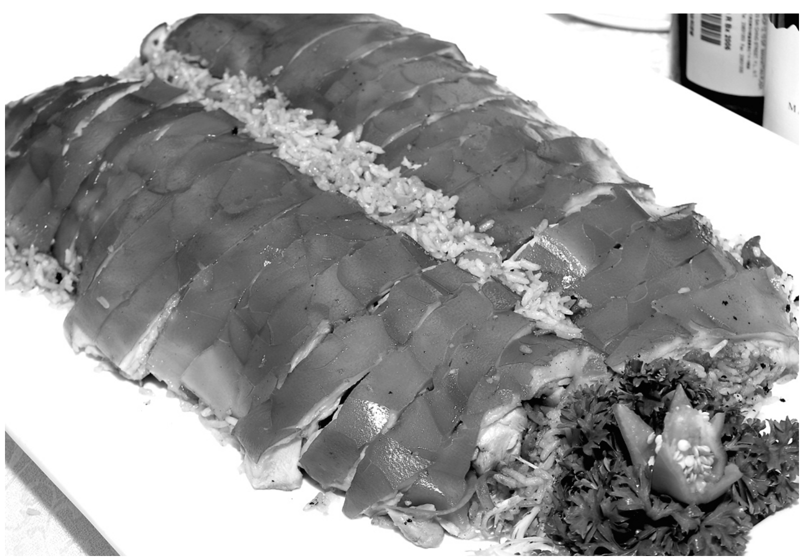

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***Turnover***

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 |
| Total | 126,476 | 100.0 | 210,320 | 100.0 |

### 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 at 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.

**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** |
| | *HK$'000* | *HK$'000* |
| Cheque | 15,224 | 27,250 |
| Credit card | 21,203 | 47,072 |
| Cash and others | 90,049 | 135,998 |
| Total | 126,476 | 210,320 |

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.

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.

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.

**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 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 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.

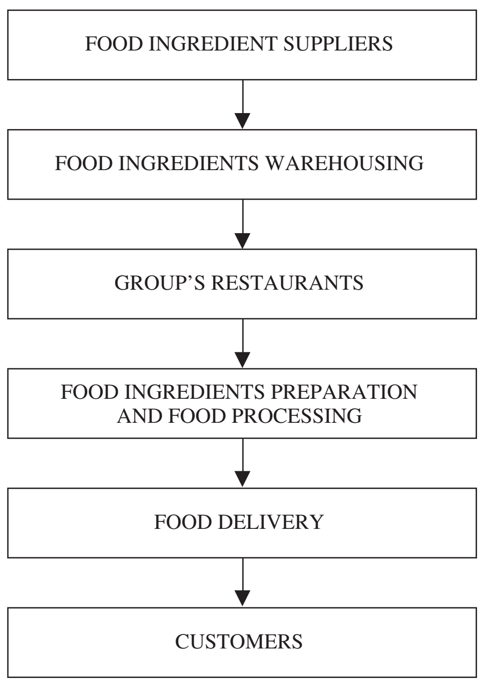
Save as the purchases from Wong Yuen Hing (which is owned as to 50% by Mr. Wong KM and 50% by Ms. Lau LY), none of the Directors, their respective associates or any Shareholder which to the knowledge of the Directors owns more than five per cent. of the issued share capital of the Company had any interest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

**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, 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.

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.

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 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.

## 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.

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 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.

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.

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.

***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 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.

## 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 *Red Seasons Aroma Restaurant* (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 *Red Seasons Aroma Restaurant* (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.

***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.

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.

**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:

| | | | General restaurant licence | | | Liquor licence | | | Water pollution control licence | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Name of the restaurant** | **Operating company** | **Address of the restaurant as shown in the general restaurant 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 |

*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

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 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.

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.

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 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 licencing requirement in this regard; (v) 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; 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.

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.

## 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.

*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.

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.

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.

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**").

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.

## 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**");

(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;

**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.

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.

## CONNECTED TRANSACTIONS

### *1. Guarantee in relation to the Tuen Mun Lease Agreement*

*Background*

On 24 December 2009, Red Seasons, as the tenant, entered into a lease (the "**Tuen Mun Lease Agreement**") with an Independent Third Party as the landlord and Mr. Sin as the guarantor in relation to the lease of premises with a total saleable area of approximately 790.78 sq.m. 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 (the "**Tuen Mun Property**") by Red Seasons from the landlord for the period from 15 December 2009 to 14 August 2013. The Tuen Mun Property was used by the Group as the restaurant premises of Tuen Mun Red Seasons.

*Principal terms*

Under the Tuen Mun Lease Agreement, the rent payable by Red Seasons to the landlord shall be paid in the following manner:

i. a monthly basic rent (the "**Basic Rent**") is payable in advance on the first day of each calendar month in the amount of (a) HK$400,000 for the period from 15 December 2009 to 14 August 2010; and (b) HK$411,000 for the period from 15 August 2010 to 14 August 2013; and

ii. a monthly additional rent (the "**Additional Rent**") is payable in arrear in an amount which equals to the difference between 12% of the aggregate of all sums of money or other consideration received or receivable from all business of any nature conducted at the Tuen Mun Property by Red Seasons each month (the "**Gross Receipts**") and the Basic Rent, provided that if 12% of the Gross Receipts of any calendar month does not exceed the Basic Rent, no Additional Rent is payable for that calendar month.

Under the Tuen Mun Lease Agreement, Mr. Sin has guaranteed to the landlord the due performance of all the obligations of Red Seasons under the Tuen Mun Lease Agreement.

*Connected person(s)*

Mr. Sin, being a director of Red Seasons, is a connected person of the Company under the GEM Listing Rules. As the guarantee provided by Mr. Sin under the Tuen Mun Lease Agreement constitutes the provision of financial assistance to Red Seasons, it constitutes a connected transaction of the Company under the GEM Listing Rules upon Listing.

*GEM Listing Rules Implication*

As the guarantee provided by Mr. Sin under the Tuen Mun Lease Agreement amounts to the provision of financial assistance by a connected person for the benefit of the Group on normal commercial terms where no security over the assets of the Group is granted in respect of the same financial assistance, it is exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

***2. Guarantee in relation to the Yuen Long Lease Agreement***

*Background*

On 18 August 2006, Jubilant, as the tenant, entered into a lease (the "**Yuen Long Lease Agreement**") with an Independent Third Party as the landlord and Ms. Lau LY as the guarantor in relation to the lease of premises with a total saleable area of approximately 1,007 sq.m. situated at Portion No. 2, 1st Floor, Ho Shun Tai Building, No. 10 Sai Ching Street, Yuen Long, New Territories, Hong Kong (the "**Yuen Long Property**") by Jubilant from the landlord for the period from 1 May 2007 to 30 April 2017. The Yuen Long Property was used by the Group as a part of the restaurant premises of Plentiful Delight Banquet Restaurant.

*Principal terms*

Under the Yuen Long Lease Agreement, a monthly rent is payable by Jubilant to the landlord in the amount of HK$323,000 for the period from 1 May 2007 to 30 April 2012 and HK$345,000 for the period from 1 May 2012 to 30 April 2017.

Under the Yuen Long Lease Agreement, Ms. Lau LY has guaranteed to the landlord the due performance of all the obligations of Jubilant under the Yuen Long Lease Agreement.

*Connected person(s)*

Ms. Lau LY, being an executive Director and a Controlling Shareholder, is a connected person of the Company under the GEM Listing Rules. As the guarantee provided by Ms. Lau LY under the Yuen Long Lease Agreement constitutes the provision of financial assistance to Jubilant, it constitutes a connected transaction of the Company under the GEM Listing Rules upon Listing.

*GEM Listing Rules Implication*

As the guarantee provided by Ms. Lau LY under the Yuen Long Lease Agreement amounts to the provision of financial assistance by a connected person for the benefit of the Group on normal commercial terms where no security over the assets of the Group is granted in respect of the same financial assistance, it is exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

## EXEMPT CONTINUING CONNECTED TRANSACTION

***Diesel Supply Agreement***

*Background*

During the Track Record Period, Cheung Lee Petrol had been supplying diesel to the Group as fuel. The relevant historical transaction amounts for the years ended 31 December 2009 and 2010 were approximately HK$646,000 and HK$825,000, respectively.

*Principal terms*

A diesel supply and purchase agreement (the "**Diesel Supply Agreement**") was entered into between Cheung Lee Petrol and the Company on 25 June 2011, pursuant to which Cheung Lee Petrol had agreed to sell to the Company (or any of its subsidiaries as directed by the Company), diesel during its term on terms no less favourable than those offered by Cheung Lee Petrol to other Independent Third Parties. The purchase price, the quantity and specifications of the diesel concerned, the time and place of delivery and other relevant matters will be negotiated by the parties with reference to the then prevailing market prices of diesel in good faith. The purchase price and the other payment terms for diesel will be set out in the relevant purchase orders to be placed under the Diesel Supply Agreement. Such price, however, shall not be higher than the average price at which Cheung Lee Petrol charges other Independent Third Parties for the same kind of product during that month on normal commercial terms in its ordinary and usual course of business.

*Connected person(s)*

Cheung Lee Petrol is principally engaged in the retail of petrol and diesel in Hong Kong.

Ms. Lau LY, being an executive Director and a Controlling Shareholder, is a connected person of the Company under the GEM Listing Rules. As Mr. Lau Chi Man, brother of Ms. Lau LY, owns 100% interest in Cheung Lee Petrol, Cheung Lee Petrol is an associate of Ms. Lau LY, and is a connected person of the Company. Therefore, the Diesel Supply Agreement constitutes a continuing connected transaction of the Company under the GEM Listing Rules upon Listing.

*Term*

The term of the Diesel Supply Agreement is from 25 June 2011 to 31 December 2013. At any time during the Diesel Supply Agreement, either party may give the other not less than three months' prior written notice to terminate the agreement.

*Reasons for and benefits of the transaction*

Cheung Lee Petrol had been providing diesel to the Group during the Track Record Period, and had proven that it was capable of providing high quality diesel which satisfies the requirements of the Group at a fair and reasonable price.

*Expected annual caps*

The Directors estimate that the annual amount payable by the Group to Cheung Lee Petrol for the purchase of diesel under the Diesel Supply Agreement for each of the three years ending 31 December 2013 would not exceed HK$980,000. In determining the annual caps, the Directors have considered (i) the historical transaction amounts for the purchase of diesel from Cheung Lee Petrol for the years ended 31 December 2009 and 2010; and (ii) the expected growth in demand of the Group for quality diesel for the three years ending 31 December 2013; and (iii) the expected increment of the market price of diesel in Hong Kong during the term of the Diesel Supply Agreement.

*GEM Listing Rules implication*

As each of the applicable percentage ratio(s) (as defined in Rule 19.07 of the GEM Listing Rules) (other than the profits ratio) with respect to the transactions contemplated under the Diesel Supply Agreement is on an annual basis less than 5% and the annual consideration is less than HK$1,000,000, the transactions are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

## NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

### A. Continuing connected transaction subject to reporting, annual review and announcement requirements

***Shatin Lease Agreement***

*Background*

Pursuant to a lease entered into between RS Corporation and U Investments on 1 January 2010 (the "**Shatin Lease Agreement**"), RS Corporation had agreed to lease from U Investments premises 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 (the "**Shatin Property**") with a total saleable area of approximately 879.41 sq.m., at a monthly rent of HK$250,000 for the period from 1 January 2010 to 31 December 2014. The Shatin Property has been used by RS Corporation as the restaurant premises of Shatin Red Seasons.

*Principal terms*

Pursuant to the Shatin Lease Agreement, U Investments had agreed to lease to RS Corporation the Shatin Property during the term of the Shatin Lease Agreement. The monthly rent is HK$250,000, which was determined based on arm's length negotiations with reference to the then market rent. Ample Appraisal Limited, an independent valuer, has confirmed that the rent reflects the then market rent of the Shatin Property and the terms of the Shatin Lease Agreement are fair and reasonable.

*Connected person(s)*

U Investments is principally engaged in property investment in Hong Kong.

Mr. Wong KM and Ms. Lau LY, both being Directors and Controlling Shareholders, are connected persons of the Company under the GEM Listing Rules. As each of Mr. Wong KM and Ms. Lau LY holds as to 50% of the issued share capital of U Investments, U Investments is an associate of each of Mr. Wong KM and Ms. Lau LY, and is a connected person of the Company. Therefore, the Shatin Lease Agreement constitutes a continuing connected transaction of the Company under the GEM Listing Rules.

*Term*

The term of the Shatin Lease Agreement is for a period of five years commencing from 1 January 2010 to 31 December 2014.

Rule 20.35(1) of the GEM Listing Rules requires that the term of an agreement governing continuing connected transactions of an issuer must not exceed three years except in special circumstances. The term of the Shatin Lease Agreement which remains after Listing will exceed three years.

The Directors are of the view that it is the industry norm for lease agreements for the purpose of operating restaurants to exceed three years and that the Shatin Lease Agreement will help the Group in securing the Shatin Property at a commercially reasonable price on a long term basis. The Directors are of the view that it will be in the interest of the Company and its Shareholders as a whole for the Group to have a term of lease with more than three years under the Shatin Lease Agreement.

The Company, under Rule 20.42(3) of the GEM Listing Rules, has applied for, and the Stock Exchange has granted to the Company, in respect of the continuing connected transaction under the Shatin Lease Agreement, a waiver from the announcement requirement of Chapter 20 of the GEM Listing Rules for the three years ending 31 December 2013. The Company will re-comply with all the applicable requirements under Chapter 20 of the GEM Listing Rules upon expiry of such waiver.

*Reasons for and benefits of the transaction*

RS Corporation has occupied and used the Shatin Property for restaurant operation since 1 January 2010. Further, the Directors consider that the terms of the Shatin Lease Agreement are fair and reasonable, on normal commercial terms and in the interest of the Group and the Shareholders as a whole.

*Expected annual caps*

Based on the current monthly rent, the Directors estimate that the annual rent payable by RS Corporation to U Investments for renting the Shatin Property for each of the three years ending 31 December 2013 will not exceed HK$3,000,000.

*GEM Listing Rules implication*

As each of the applicable percentage ratio(s) (as defined in Rule 19.07 of the GEM Listing Rules) (other than the profits ratio) with respect to the transaction contemplated under the Shatin Lease Agreement is on an annual basis less than 5%, the transaction is exempt from the independent shareholders' approval requirement under Chapter 20 of the GEM Listing Rules.

## B. Continuing connected transactions subject to reporting, annual review, announcement and independent shareholders' approval requirements

During the Track Record Period, for its day-to-day restaurant operation, the Group had been purchasing pork and wine from companies controlled by Mr. Wong KM and Ms. Lau LY. The Company has entered into the agreements described below with the relevant companies setting out the terms for continuing these transactions after Listing. These transactions will constitute continuing connected transactions of the Company after Listing and are aggregated under the GEM Listing Rules.

***Pork Supply Agreement and Wine Supply Agreement***

*Background*

Throughout the Track Record Period, Wong Yuen Hing had been supplying pork and U Cellar had been supplying wine to the Group, respectively. The relevant historical transaction amounts for the years ended 31 December 2009 and 2010 were approximately HK$4,122,000 and HK$4,143,000 for the purchase of pork from Wong Yuen Hing and approximately HK$342,000 and HK$186,000 for the purchase of wine from U Cellar, respectively.

*Principal terms of the Pork Supply Agreement*

A pork supply and purchase agreement (the "**Pork Supply Agreement**") was entered into between Wong Yuen Hing and the company on 25 June 2011, pursuant to which Wong Yuen Hing had agreed to sell to the Company (or any of its subsidiaries as directed by the Company) pork during the term of the Pork Supply Agreement on terms no less favourable than those offered by Wong Yuen Hing to other Independent Third Parties. The purchase price, the quantity and specifications of the pork concerned, the time and place of delivery and other relevant matters will be negotiated by the parties with reference to the then prevailing market prices of pork in good faith. The purchase price and the other payment terms for pork will be set out in the relevant purchase orders to be placed under the Pork Supply Agreement. Such price, however, shall not be higher than the average price at which Wong Yuen Hing charges other Independent Third Parties for the same kind of product during that month on normal commercial terms in its ordinary and usual course of business.

*Principal terms of the Wine Supply Agreement*

A wine supply and purchase agreement (the "**Wine Supply Agreement**") was entered into between U Cellar and the Company on 25 June 2011, pursuant to which U-Cellar had agreed to sell to the Company (or any of its subsidiaries as directed by the Company) wine during the term of the Wine Supply Agreement on terms no less favourable than those offered by U Cellar to other Independent Third Parties. The purchase price, the quantity and specifications of the wine concerned, the time and place of delivery and other relevant matters will be negotiated by the parties with reference to the then prevailing market prices of wine in good faith. The purchase price and the other payment terms for the wine will be set out in the relevant purchase orders to be placed under the Wine Supply Agreement. Such price, however, shall not be higher than the average price at which U Cellar charges other Independent Third Parties for the same kind of product during that month on normal commercial terms in its ordinary and usual course of business.

*Connected person(s)*

Wong Yuen Hing is principally engaged in the wholesale and retail of pork in Hong Kong. Wong Yuen Hing had a total of 5 retail outlets as at the Latest Practicable Date. The Group has contributed to approximately 12% and 10% of the revenue of Wong Yuen Hing for the two years ended 31 December 2010, respectively.

U Cellar is principally engaged in the business of supply and retail of wine in Hong Kong.

Mr. Wong KM and Ms. Lau LY, both being executive Directors and Controlling Shareholders, are connected persons of the Company under the GEM Listing Rules. As each of Mr. Wong KM and Ms. Lau LY holds as to 50% of the issued share capital of Wong Yuen Hing, Wong Yuen Hing is an associate of each of Mr. Wong KM and Ms. Lau LY, and is a connected person of the Company. As each of Mr. Wong KM and Ms. Lau LY holds as to 50% of the issued share capital of U Cellar, U Cellar is an associate of each of Mr. Wong KM and Ms. Lau LY, and is a connected person of the Company. Therefore, the transactions contemplated under the Pork Supply Agreement and the Wine Supply Agreement constitute continuing connected transactions of the Company under the GEM Listing Rules.

*Term*

The term of each of the Pork Supply Agreement and the Wine Supply Agreement is from 25 June 2011 to 31 December 2013. At any time during the term of the Pork Supply Agreement and the Wine Supply Agreement, either party may give the other not less than three months' prior written notice to terminate the relevant agreement.

*Reasons for and benefits of the transactions*

Both of Wong Yuen Hing and U Cellar had been providing relevant products to the Group during the Track Record Period, and had proven that it was capable of providing high quality pork/wine which fulfil the requirements of the Group at a fair and reasonable price.

*Expected annual caps*

The Directors estimate that the annual amount payable by the Group to Wong Yuen Hing for the purchase of pork under the Pork Supply Agreement for the three years ending 31 December 2013 would not exceed HK$10,000,000, HK$12,500,000 and HK$15,000,000, respectively.

In determining the annual caps for the purchase of pork under the Pork Supply Agreement, the Directors have considered (i) the historical transaction amount for the purchase of pork by the Group from Wong Yuen Hing during the period from January 2011 to April 2011; (ii) the expected significant growth in demand of the Group for quality pork for the three years ending 31 December 2013, taking into account the Group's future plan of opening the Red Royalty Banquet Restaurant by the end of 2011 and another restaurant (for details, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus); and (iii) the expected increment of the market price of pork in Hong Kong during the term of the Pork Supply Agreement.

The transaction volume for the purchase of pork by the Group from Wong Yuen Hing during the four months ended 30 April 2011 amounted to approximately HK$2,882,000, which represents a substantial increase as compared to the transaction amounts for the purchase of pork from Wong Yuen Hing of approximately HK$4.1 million for each of the two financial years ended 31 December 2010. The Directors believe that the award by the Michelin Guide Hong Kong Macau 2011 of the Michelin Bib Gourmand to Lam Tei Red Seasons in December 2010 has generated extensive local media coverage which in turn has led to an increase in publicity and consumer awareness of the Group's restaurants. In particular, the recommendation by the Michelin Guide Hong Kong Macau 2011 of the roast suckling pig stuffed with glutinous rice and dried prawns (蝦禾米乳香豬) may have an effect in lifting the sale of the said menu, including the orders for dishes consumed in the Group's restaurants and takeaway orders, and other menus with pork as one of the major ingredients. Based on that, the annual amount payable by the Group under the Pork Supply Agreement for the year 2011 is expected to be approximately HK$10,000,000 (i.e. HK$2,882,000 times 3 plus an appropriate buffer).

It is currently expected that the Red Royalty Banquet Restaurant would be opened for business towards the end of 2011. After taking into account the expected demand from the Red Royalty Banquet Restaurant for pork under the Pork Supply Agreement in the aggregate sum of approximately HK$2,000,000, being an estimate derived from the actual demand for pork of Plentiful Delight Banquet Restaurant and with reference to, the expanded floor area of Red Royalty Banquet Restaurant, an estimated inflation rate of approximately 5%, the expected annual amount payable by the Group to Wong Yuen Hing for the year ending 31 December 2012 which is likely to increase to approximately HK$12,500,000.

The Group plans to open another new restaurant in 2013. After taking into account the expected demand from this new restaurant for pork under the Pork Supply Agreement in the sum of HK$1,500,000, being an estimate derived from the actual demand for pork of Tsuen Wan Red Seasons which has a similar floor area as the new restaurant, and with reference to, an estimated inflation rate of approximately 5%, the expected annual amount payable by the Group to Wong Yuen Hing for the year ending 31 December 2013 which is likely to increase to approximately HK$15,000,000.

The Directors estimate that the annual amount payable by the Group to U Cellar for the purchase of wine under the Wine Supply Agreement would not exceed HK$500,000 for each of the three years ending 31 December 2013.

In determining the annual caps for the purchase of wine under the Wine Supply Agreement, the Directors have considered (i) the historical transaction amounts for the purchase of wine from U Cellar for the years ended 31 December 2009 and 2010 and the four months ended 30 April 2011 of approximately HK$342,000, HK$186,000 and HK$51,400, respectively; and (ii) the expected growth in demand of the Group for quality wine for each of the three years ending 31 December 2013; and (iii) the expected increment of the market price of wine in Hong Kong during the term of the Wine Supply Agreement.

Accordingly, the Directors estimate that the aggregate annual amount payable by the Group, to Wong Yuen Hing for the purchase of pork under the Pork Supply Agreement and to U Cellar for the purchase of wine under the Wine Supply Agreement, for the three years ending 31 December 2013 would not exceed HK$10,500,000, HK$13,000,000 and HK$15,500,000, respectively.

*GEM Listing Rules Implication*

As the continuing connected transactions contemplated under the Pork Supply Agreement and the Wine Supply Agreement were both entered into between the Company and companies wholly owned by Mr. Wong KM and Ms. Lau LY, and are similar in nature, they are aggregated pursuant to Rule 20.25 of the GEM Listing Rules. As one of the applicable percentage ratio(s) (as defined in Rule 19.07 of the GEM Listing Rules) (other than the profits ratio) with respect to the transactions contemplated under the Pork Supply Agreement and the Wine Supply Agreement, when aggregated, is on an annual basis more than 25%, the transactions are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

## WAIVER FROM COMPLIANCE WITH THE GEM LISTING RULES

Given their recurring nature and the fact that the respective agreements for each of the continuing connected transactions mentioned in the paragraph headed "Non-exempt continuing connected transactions" in this section were entered into prior to the Listing Date, the Directors consider that compliance with the announcement and/or independent shareholders' approval requirements would be impractical and would add unnecessary administrative costs to the Company. Accordingly, the Company, pursuant to Rule 20.42(3) of the GEM Listing Rules, has applied for, and the Stock Exchange has granted to the Company, a waiver with respect to its non-exempt continuing connected transactions referred to above from the announcement and/or independent shareholders' approval requirements of Chapter 20 of the GEM Listing Rules.

## CONFIRMATION FROM THE DIRECTORS

The Directors (including the independent non-executive Directors) confirm that the continuing connected transactions referred to above have been entered into in the ordinary and usual course of business of the Group on normal commercial terms and the terms of the abovementioned transactions, including the proposed annual caps, are fair and reasonable and in the interests of the Shareholders as a whole. As such, the Directors (including the independent non-executive Directors) confirm that it is in the interest of the Shareholders and the Group as a whole to continue with these transactions after Listing.

In the event that the Group enters into any new transactions or agreements with any connected person in the future, the Company will comply with the relevant provisions of Chapter 20 of the GEM Listing Rules. In addition, if any of the continuing connected transactions shall continue after the expiry of the current waiver and/or if the transaction amount of any of the continuing connected transactions shall exceed the expected annual caps, the Company will comply with the relevant provisions of Chapter 20 of the GEM Listing Rules.

## CONFIRMATION FROM THE SPONSOR

The Sponsor confirms that the non-exempt continuing connected transactions referred to above for which the waiver is sought have been entered into in the ordinary and usual course of business of the Group on normal commercial terms and the terms of the abovementioned transactions, including the proposed annual caps, are fair and reasonable and in the interests of the Shareholders as a whole.

## DIRECTORS

The Board is responsible and has general powers for the management and conduct of the Group's business. The following table set forth information regarding the current Directors:

| Name | Age | Position |
|---|---|---|
| Mr. Wong Kwan Mo (黃君武) | 54 | Chairman and executive Director |
| Ms. Lau Lan Ying (劉蘭英) | 48 | Chief executive officer and executive Director |
| Mr. Yu Ka Ho (余嘉豪) | 29 | Independent non-executive Director |
| Mr. Li Fu Yeung (李富揚) | 32 | Independent non-executive Director |
| Ms. Chiu Man Yee (趙曼而) | 31 | Independent non-executive Director |

### Executive Directors

**Mr. Wong Kwan Mo (黃君武)**, aged 54, the founder of the Group, is the chairman of the Board and an executive Director. He was appointed a Director on 10 February 2011. Mr. Wong KM is an accomplished restaurateur who has over 29 years of operating experience in the food industry. Mr. Wong KM has been responsible for the overall management, business development and strategic planning of the Group since its establishment in 2006. Mr. Wong KM is a Controlling Shareholder.

Mr. Wong KM started his career in open food markets, where he acquired fundamental and practical knowledge of quality of food. Since 1982, Mr. Wong KM has operated and managed a fresh meat supply company. Through his active involvement in the sale, importing and handling of fresh meats, he acquired an in-depth knowledge of fresh meat quality and was well-versed in the operations and mechanisms of meat supply. Since 1995, Mr. Wong KM has managed a property investment company. Mr. Wong KM's leasing experience has been built upon his knowledge and understanding of property markets in Hong Kong gained from this position. Mr. Wong KM gained further experience in the food industry through operating and managing companies, the principal business of which are importing and sale of fresh meat. Apart from monitoring the daily operation and principal decision making of the companies, Mr. Wong KM was mainly involved in the supplier selection and procurement of quality and fresh meat. From 2000 to 2007, Mr. Wong KM operated and managed two Chinese restaurants in Hong Kong which focused on serving cuisine including Cantonese dim sum, main courses and seasonal Chinese cuisine. Mr. Wong KM has subsequently disposed of his interest in the restaurants and currently has no equity interest or involvement in any of these restaurants. From 2009, Mr. Wong KM became involved in the business of sale of wine by operating a wine company. Throughout such extensive industry experience, Mr. Wong KM has developed a solid track record of leadership and management capabilities, particularly in the areas of operational leadership, business development and staff management. Mr. Wong KM is experienced in the food industry and handling executive functions and is well-positioned to provide strategic and operational leadership of the Group. Mr. Wong KM is the husband of Ms. Lau LY.

Mr. Wong KM was a director of Land Bright International Limited ("**Land Bright**"), a company incorporated in Hong Kong in 1993. Land Bright was principally engaged in the business of provision of books and stationeries. The shareholders of Land Bright decided to dissolve Land Bright by way of deregistration in 2007 pursuant to section 291AA of the Companies Ordinance as they did not want to continue to carry on the business mentioned above through Land Bright. Mr. Wong KM confirmed that Land Bright was solvent at the time of deregistration.

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.

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 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 Lan Ying (劉蘭英)**, aged 48, is the chief executive officer of the Board and an executive Director. She was appointed a Director on 10 February 2011. She is also the chairman of the remuneration committee of the Company and the compliance officer of the Company. Ms. Lau LY has over 13 years of operating experience in the food industry, including mainly her involvement in the financial management of the fresh meat supply companies operated by Mr. Wong KM. Ms. Lau LY has been responsible for the overall strategic management in finance, accounting, human resources and marketing of the Group since 2006. Ms. Lau LY is a Controlling Shareholder.

Since 1998, Ms. Lau LY has managed companies engaged in the business of importing and sale of fresh meat. From 2000 to 2007, Ms. Lau LY operated and managed two Chinese restaurants in Hong Kong which are the same as the restaurants operated by Mr. Wong KM. Ms. Lau LY has subsequently disposed of her interest in these restaurants and currently has no equity interest or involvement in any of these restaurants. From 2009, Ms. Lau LY has been involved in the business of sale of wine by operating a wine company. Ms. Lau LY gained management experience from managing a property investment company since 1995 and a company engaged in the business of education since 2002.

As part of a transaction in purchasing a restaurant from a restaurant owner in or about December 2009, 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 and the draft SP Agreement as amended by Red Seasons Investments through an agent (collectively, the "**Counter-offers**").

Before the amended draft Confirmation and SP Agreement were signed, in the process of negotiation, the agent had 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 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 and the possible associated legal costs. Further, she is entitled to take legal action to recover the said sum of HK$570,000 and the possible associated legal costs 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 Investment 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.

**Independent non-executive Directors**

**Mr. Yu Ka Ho (余嘉豪) ("Mr. Yu")**, aged 29, was appointed a Director on 25 June 2011. He is also the chairman of the audit committee of the Company and a member of the remuneration committee of the Company. Mr. Yu has over 5 years experience in the financial industry. From 2004 to 2005, Mr. Yu worked in Daily Credit Management Limited, a risk management and consultancy company as a business analyst. He then joined eBiz Incubation and Investment Company Limited, an investment company, in 2005 as an assistant research analyst. He was promoted to research analyst in 2007 and was mainly responsible for leading his team to conduct research and analysis in the Hong Kong and PRC property investment industry. Mr. Yu joined CITIC Securities International Company Limited in 2008 as a financial analyst in the equity capital market division of the corporate finance department. Mr. Yu is currently the general manager of the Shrine of Hong Kong Limited, a subsidiary of Hong Kong Life Group Holdings Limited (a company listed on the Stock Exchange with stock code 8212) which is principally engaged in the businesses of distribution of edible oil, provision of shrine for memorial of ancestor and sale of paper-offering, and is responsible for the overseeing and managing the daily operation of the company.

Mr. Yu obtained a bachelor's degree in Financial Engineering from City University of Hong Kong in 2004 and a master's degree in Mathematics for Finance and Actuarial Science from the Joint Degree Programme of City University of Hong Kong and Université Paris-Dauphine in 2007.

**Mr. Li Fu Yeung (李富揚) ("Mr. Li")**, aged 32, was appointed a Director on 25 June 2011. He is also a member of the audit committee and remuneration committee of the Company. Mr. Li has over 6 years of experience in the financial industry. Since 2004, Mr. Li has worked in Manulife (International) Limited and his current position is Unit Manager and is responsible for the sales and marketing of insurance related product.

Mr. Li obtained a diploma in computer science from the Sydney Institute of Business and Technology in 2001.

**Ms. Chiu Man Yee (趙曼而) ("Ms. Chiu")**, aged 31, was appointed a Director on 25 June 2011. She is also a member of the audit committee of the Company. From 2002 to 2004, Ms. Chiu worked in Deloitte Touche Tohmatsu Limited and IBM China/Hong Kong Limited as an accountant and senior accountant specialist respectively. In 2005, she joined Ernst & Young as staff accountant (and later senior accountant) of its Assurance and Advisory Business Services Department. In 2007, Ms. Chiu joined JP Morgan Chase Bank as an associate in its Investment Banking − Fund − HK Branch Department and she is currently a finance manager of Standard Chartered Bank.

Ms. Chiu obtained a bachelor's degree in finance and marketing from The Hong Kong University of Science and Technology in 2002. She is currently a member of Hong Kong Institute of Certified Public Accountants.

Save as disclosed above, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there are no other matters concerning all the Directors' appointment that need to be brought to the attention of the Shareholders and the Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules.

## SENIOR MANAGEMENT

| Name | Age | Position |
|---|---|---|
| Mr. Wong Tin King, Richard (黃天競) | 33 | Chief financial officer |
| Mr. Lee Chi Ting (李智廷) | 52 | Restaurant manager |
| Mr. Li Wai Hung (李偉洪) | 49 | General manager |

**Mr. Wong Tin King, Richard (黃天競) ("Mr. T.K. Wong")**, *CPA, ACA* aged 33, has been appointed as the chief financial officer of the Company since 24 June 2011. He graduated from The Hong Kong Polytechnic University with a bachelor's degree in accountancy in 2000. Mr. T.K. Wong has over 10 years of accounting experience accumulated from working for various professional accounting firms from 2000 to 2010. Mr. T.K. Wong is responsible for the accounting and financial functions of the Company, including developing financial strategy to support the Company's growth plan.

Mr. T.K. Wong is currently an associate member of The Institute of Chartered Accountants in England and Wales and a member of Hong Kong Institute of Certified Public Accountants.

**Mr. Lee Chi Ting (李智廷) ("Mr. Lee")**, aged 52, is a restaurant manager of the Group. Mr. Lee graduated from the National Taiwan University with a bachelor's degree in agricultural chemistry in 1984. Mr. Lee has over 17 years of operational and managing experience in the service industry accumulated from working as a manager for a hotel and a restaurant in Hong Kong since 1985.

Mr. Lee joined the Group in 2010 as a restaurant manager and is responsible for overseeing and managing the daily restaurant operations under the brand of *Red Seasons Aroma Restaurant* (季季紅風味酒家).

**Mr. Li Wai Hung (李偉洪)**, aged 49, is a restaurant manager of the Group. Mr. Li WH has over 25 years of operating and managing experience in the restaurant industry accumulated from working as manager and/or general manager for various large-scale restaurants in Hong Kong since 1986.

Mr. Li WH joined the Group in 2007 as the general manager and has been responsible for overseeing and managing the daily operation of Plentiful Delight Banquet Restaurant. It is intended that Mr. Li WH will also take up the management of Red Royalty Banquet Restaurant, which is expected to launch in the fourth quarter of 2011.

## COMPLIANCE OFFICER

**Ms. Lau Lan Ying (劉蘭英)**, aged 48, who is also an executive Director, is the compliance officer of the Company. For details of her qualifications and experience, please refer to the sub-paragraph headed "Executive Directors" of the paragraph headed "Directors" in this section.

## COMPANY SECRETARY

**Mr. Wong Tin King, Richard (黃天競)**, *CPA, ACA* aged 33, is the company secretary of the Company. For details of his qualifications and experience, please refer to the paragraph headed "Senior management" in this section.

## REMUNERATION POLICY

The Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses with reference to salaries paid by comparable companies, time commitment and the performance of the Group. The Group also reimburses them for expenses which are necessarily and reasonably incurred for the provision of services to the Group or executing their functions in relation to the operations of the Group. Free meals are provided to the Group's employees. The Group regularly reviews and determines the remuneration and compensation package of the Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of the Directors and the performance of the Group.

## STAFF OF THE GROUP

As at the Latest Practicable Date, the Group had a total of 533 full-time employees. The following table shows the breakdown of the employees by functions as at the Latest Practicable Date:

| | **Number of employees** |
|---|---|
| Management | 8 |
| Finance and accounting | 8 |
| Administration and marketing | 2 |
| Purchasing and logistics | 9 |
| Personnel | 2 |
| Operations | 504 |
| Total | 533 |

## STAFF RELATIONS

The Group recognises the importance of a good relationship with the employees. The Group has not experienced any problems with its employees save as those arising from ordinary course of business or disruption to the operations due to labour disputes, nor has the Group experienced any difficulties in the recruitment and retention of staff.

The Group believes that the employee relations are satisfactory in general. The Group believes that the management policies, working environment, career prospects and benefits extended to the employees have contributed to employee retention and building of amicable employee relations.

### Employees' Benefits

The Group's remuneration to employees includes salaries and tips. The Group provides insurance coverage in respect of medical care and work injury to its employees.

## RETIREMENT BENEFIT SCHEME

The Group participates in the mandatory provident fund for its employees in accordance with the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong). The Group has paid the relevant contributions in accordance with the aforesaid laws and regulations.

## BOARD COMMITTEES

### Audit committee

The Company established an audit committee pursuant to a resolution of the Directors passed on 25 June 2011 with written terms of reference in compliance with Rule 5.28 and Rule 5.29 of the GEM Listing Rules. The written terms of reference of the audit committee was adopted in compliance with paragraph C3.3 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the audit committee, among other things, are to make recommendation to the Board on the appointment, reappointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting; and oversee internal control procedures of the Company. At present, the audit committee of the Company consists of three members, namely Mr. Yu Ka Ho, Mr. Li Fu Yeung and Ms. Chiu Man Yee. Mr. Yu Ka Ho is the chairman of the audit committee.

### Remuneration committee

The Company established a remuneration committee pursuant to a resolution of the Directors passed on 25 June 2011 with written terms of reference in compliance with paragraph B1.1 and paragraph B1.3 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; review performance based remuneration; and ensure none of the Directors determine their own remuneration. The remuneration committee consists of three members, namely Ms. Lau LY, Mr. Yu Ka Ho and Mr. Li Fu Yeung. Ms. Lau LY is the chairman of the remuneration committee.

## COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Quam Capital to be its compliance adviser, who will have access to the Company's authorised representatives, Directors and other officers at all times. The material terms of the compliance adviser's agreement entered into between the Company and the compliance adviser are as follows:

(i) the term of the appointment shall commence on the Listing Date and end on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;

(ii) the compliance adviser shall provide the Company with guidance and advice as to compliance with the Listing Rules and all other applicable laws, rules, codes and guidelines;

(iii) the Company agrees to indemnify and holds the compliance adviser (for itself and on trust for the compliance adviser's affiliates, its and their respective directors, officers, agents and employees and each other person, if any, controlling the compliance adviser or any of its affiliates) harmless from and against any and all losses, claims, damages or liabilities, incurred by the compliance adviser in relation to the services provided to the Company, save to the extent that any such loss, claim, damage or liability arises as a direct result of the wilful default or gross negligence of the compliance adviser; and

(iv) the Company shall have the right, subject to thirty (30) days' written notice to terminate the role of the compliance adviser under the agreement only if the compliance adviser's work is of an unacceptable standard or if there is a material dispute (which cannot be resolved within thirty (30) days) over fees payable by the Company to the compliance adviser. The compliance adviser shall have the right to resign or terminate its appointment as a compliance adviser under the agreement if the Company fails to perform its responsibilities as described in the agreement at any time by giving not less than thirty (30) days' written notice to the Company.

## CONTROLLING SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Placing and the Capitalisation Issue, the following persons individually and/or collectively are entitled to exercise or control the exercise of 30% or more of the voting power at the general meetings of the Company.

| Name | Capacity/nature of interests | Number of Shares held immediately after the Placing and the Capitalisation Issue | Approximate percentage of shareholding in the Company immediately after the Placing and the Capitalisation Issue |
|---|---|---|---|
| KMW *(Note 1)* | Beneficial owner | 240,000,000 | 75% |
| Mr. Wong KM *(Note 2)* | Interest in a controlled corporation | 240,000,000 | 75% |
| Ms. Lau LY *(Note 3)* | Interest in a controlled corporation | 240,000,000 | 75% |

*Notes:*

(1) The entire issued share capital of KMW is owned as to 50% by Mr. Wong KM and 50% by Ms. Lau LY.

(2) Mr. Wong KM is deemed to be interested in all the Shares held by KMW by virtue of the SFO.

(3) Ms. Lau LY is deemed to be interested in all the Shares held by KMW by virtue of the SFO.

## SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Placing and the Capitalisation Issue, the following person/entities will have interests and/or short positions in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

| Name | Capacity/nature of interests | Number of Shares held immediately after the Placing and the Capitalisation Issue | Approximate percentage of shareholding in the Company immediately after the Placing and the Capitalisation Issue |
|---|---|---|---|
| KMW *(Note 1)* | Beneficial owner | 240,000,000 | 75% |
| Mr. Wong KM *(Note 2)* | Interest in a controlled corporation | 240,000,000 | 75% |
| Ms. Lau LY *(Note 3)* | Interest in a controlled corporation | 240,000,000 | 75% |

*Notes:*

(1) The entire issued share capital of KMW is owned as to 50% by Mr. Wong KM and 50% by Ms. Lau LY.

(2) Mr. Wong KM is deemed to be interested in all the Shares held by KMW by virtue of the SFO.

(3) Ms. Lau LY is deemed to be interested in all the Shares held by KMW by virtue of the SFO.

## SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, save for the persons disclosed under the paragraph headed “Substantial Shareholders” in this section, there are no other persons who will immediately following completion of the Placing and the Capitalisation Issue be directly or indirectly interested in five per cent. or more of the voting power at the general meetings of the Company and are therefore regarded as significant shareholders of the Company under the GEM Listing Rules.

## SHAREHOLDING STRUCTURE

Set out below are the respective shareholding structures of the Company immediately before and after completion of the Placing and the Capitalisation Issue:

| Name | Date on which shareholding interest in the Group was first acquired | Number of Shares held immediately before the Placing and the Capitalisation Issue | Approximate percentage of shareholding in the Company immediately before the Placing and the Capitalisation Issue | Number of Shares to be held immediately after completion of the Placing and the Capitalisation Issue | Approximate percentage of shareholding in the Company immediately after completion of the Placing and the Capitalisation Issue |
|---|---|---|---|---|---|
| KMW *(Note 1)* | 10 February 2011 | 38,000,000 | 100% | 240,000,000 | 75% |
| Public *(Note 2)* | N/A | N/A | N/A | 80,000,000 | 25% |

*Notes:*

(1) KMW is beneficially owned by Mr. Wong KM and Ms. Lau LY, each of them holding 50% of the entire issued share capital of KMW.

(2) 80,000,000 Placing Shares are being offered by the Company under the Placing.

## INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Save as otherwise disclosed in the section headed "Connected Transactions" in this prospectus, the Directors do not expect that there will be any other significant transactions between the Group and the Controlling Shareholders upon or immediately after Listing. Having considered the following factors, the Directors believe that the Group is capable of carrying on its business independently of the Controlling Shareholders and their respective associates after the Listing.

### Financial independence

The Directors are of the view that the Group does not unduly rely on advances from the Controlling Shareholders and related parties for the business operations. Save for the guarantee in relation to the Yuen Long Lease Agreement as disclosed under the paragraph headed "Guarantee in relation to the Yuen Long Lease Agreement" in the section headed "Connected Transactions" in this prospectus, all amounts due to/from and guarantees provided by/to Mr. Wong KM and Ms. Lau LY will be fully settled and released before the Listing. Having considered that (i) the continued provision of guarantee by Ms. Lau LY under the Yuen Long Lease Agreement without the Company's provision of a replacement guarantee following the Listing would avoid the burden to alter the Yuen Long Lease Agreement; (ii) the Group can lease properties at other locations for its restaurant operation without the guarantee provided by Ms. Lau LY; (iii) the Group has independent financial and accounting systems, independent treasury function for receiving cash and making payments and independent access to third party financing; (iv) the Group makes financial decisions according to the Group's own business needs; (v) the amounts due to/from the Controlling Shareholders will be fully settled before Listing; and (vi) the Group has sufficient committed banking facilities to fund its operations, the Directors consider that the Group can operate independently of the Controlling Shareholders from the financial perspective. As at the Latest Practicable Date, the Group had total banking facilities of approximately HK$21,500,000, of which approximately HK$21,491,000 were utilised. One of the banking facilities are guaranteed by the Controlling Shareholders as at the Latest Practicable Date and such guarantee will be replaced by corporate guarantee from the Company upon Listing.

**Operational Independence**

Despite that the Group will have various continuing connected transactions with the Controlling Shareholders after Listing as disclosed in the section headed "Connected Transactions" in this prospectus, having considered that (i) the Group has independent access to suppliers for its restaurant business and maintained a total had 48 approved suppliers as at the Latest Practicable Date; (ii) the Group has other suppliers for each of the categories of food ingredients and raw materials; and (iii) the Group can lease properties at other locations for its restaurant operation without the guarantees provided by Ms. Lau LY; (iv) the Group has established its own set of organisational structure made up of individual departments, each with specific areas of responsibilities; (v) the Group has independent access to customers for its restaurant business; and (vi) the Group has established a set of internal controls to facilitate the effective operation of its business, the Directors consider that the Group can operate independently of the Controlling Shareholders from the operational perspective.

**Management Independence**

***Board***

To ensure that the Group can operate independently from the Controlling Shareholders, certain corporate governance measures have been adopted. The Board comprises five Directors, which include two executive Directors, namely Mr. Wong KM and Ms. Lau LY and three independent non-executive Directors, namely Mr. Yu Ka Ho, Mr. Li Fu Yeung and Ms. Chiu Man Yee. All the independent non-executive Directors are sufficiently experienced and capable of monitoring the operation of the Group independently of the Controlling Shareholders. Therefore, the Directors are of the view that the interests of the Shareholders can be safeguarded. For details of the Directors, please refer to section headed "Directors, Senior Management and Staff" in this prospectus. Each of the Directors is aware of his or her fiduciary duties as a Director which requires, among other things, that he or she acts for the benefit and in the best interests of the Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event there are conflicts of interests for approving a proposed transaction due to the dual positions of a Director acting as director of the Company and another company, pursuant to the relevant provisions of the Articles, the Director shall be absent from the Board meeting and abstain from voting (nor be counted in the quorum) in the resolution(s) of the Board approving such transaction.

### *Committees*

The Group has established an audit committee and a remuneration committee. Each committee consists of a majority of independent non-executive Directors to monitor the operation of the Group.

The audit committee is responsible for reviewing and supervising the financial reporting process and internal control system of the Group whereas the remuneration committee's role is to ensure that the Directors are properly remunerated without being influenced by the Controlling Shareholders.

### *Senior Management*

The Group is also managed by the senior management who can work and carry on the business of the Group independently of the Controlling Shareholders. For details of the Group's senior management, please refer to the section headed "Directors, Senior Management and Staff" in this prospectus.

Having considered the above factors, the Directors are satisfied that they are able to perform their roles in the Company independently, and the Directors are of the view that the Group is capable of managing the business independently of the Controlling Shareholders after the Listing.

## UNDERTAKINGS

Each of the Company and the Controlling Shareholders has given certain undertakings in respect of the Shares (including those as required by Rules 13.16A(1) and 13.19 of the GEM Listing Rules, where applicable) to the Company, the Sponsor, the Lead Manager, the Underwriters and the Stock Exchange, details of which are set out under the paragraph headed "Undertakings" in the section headed "Underwriting" in this prospectus.

## COMPETING INTERESTS

U Cellar is owned as to 50% by Mr. Wong KM and 50% by Ms. Lau LY. Each of Mr. Wong KM and Ms. Lau LY is a director of U Cellar, an executive Director and a Controlling Shareholder. U Cellar is a connected person for the purpose of GEM Listing Rules. For details of the continuing connected transactions between U Cellar and the Group, please refer to the section headed "Connected Transactions" in this prospectus.

U Cellar has been principally engaged in the business of supply and retail of wine in Hong Kong, including the operation of a retail wine shop, since commencement of business in May 2009. Since the Group's establishment in 2006 until the Latest Practicable Date, the Group had not been engaged in such business. The Group's restaurants have offered and will continue to offer wine to their customers. The Directors believe that any competition between the business of U Cellar and the Group's business is remote as (a) the nature of business of U Cellar and the Group is different given that U Cellar is in the business of supply and retail of wine and the Group is in the business of operating Chinese restaurants; (b) U Cellar and the Group target different customers since U Cellar targets retail customers, wholesale customers and wine connoisseurs while the Group's restaurants target wedding banquet customers and ordinary diners; (c) the Group's restaurants and the retail wine shop operated by U Cellar charge the same price for the wine; and (d) a 10% service charge is charged on any wine which the customer consumes in the restaurant and this service charge policy applies to all customers regardless of whether he orders the wine from the restaurant or brings the wine he purchases from elsewhere (whether or not from an Independent Third Party).

Save as disclosed above, none of the Controlling Shareholders, substantial shareholders of the Company and Directors is interested in any business that competes, or is likely to compete, directly or indirectly, with the business of the Group.

## NON-COMPETITION UNDERTAKINGS

Each of Mr. Wong KM and Ms. Lau LY as covenantor (each a "**Covenantor**", collectively, "**Covenantors**") executed the Deed of Non-competition in favour of the Company (for itself and as trustee for its subsidiaries) and confirms that other than his/her interest in the Company and those disclosed in this prospectus, none of them is engaged in any business which, directly or indirectly, competes or may compete with the business of the Company or any of its subsidiaries, or has any interest in such business.

In accordance with the Deed of Non-competition, each Covenantor undertakes that, from the Listing Date and ending on the occurrence of the earliest of (i) the date on which the Shares cease to be listed on GEM (other than suspension of trading of the Shares of the Company for any other reason); (ii) the date on which the Covenantors cease to be interested in 30% or more of the entire issued share capital of the Company; or (iii) the date on which the Covenantors beneficially own or become interested jointly or severally in the entire issued share capital of the Company (the "**Restricted Period**"):

### 1. Non-competition

He/she will not, and will use his/her best endeavours to procure any Covenantor, his/her associates (collectively, "**Controlled Persons**") and any company directly or indirectly controlled by the Covenantor (the "**Controlled Company**") not to, either on his/her own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, carry on, participate in, hold, engage in, acquire or operate, or provide any form of assistance to any person, firm or company (except members of the Group) to conduct any business which, directly or indirectly, competes or may compete with the business of the Company or any of its subsidiaries in Hong Kong or the PRC and such other places as the Company or any of its subsidiaries may conduct or carry on business from time to time, including the operation of Chinese restaurant and the provision of Chinese wedding banquet and dining services for large-scale events, but for the avoidance of doubt, excluding the ownership of interests by the Covenantors in U Cellar as mentioned above (the "**Restricted Business**").

The Deed of Non-competition does not apply if a Covenantor owns any interest not exceeding five per cent. of the issued shares in any company conducting any Restricted Business (the "**Relevant Company**"), and such company or its holding company is listed in any recognised stock exchange (as defined under the SFO), notwithstanding that the business conducted by the Relevant Company constitutes or might constitute competition with the business of the Company or any of its subsidiaries, provided that (i) the shareholding of any one holder (and his/her associate, if applicable) in the Relevant Company is more than that of a Covenantor and/or his/her associates at any time; and (ii) the total number of the relevant Covenantors' representatives on the board of directors of the Relevant Company is not significantly disproportionate with respect to his/her shareholding in the Relevant Company.

**2. New business opportunity**

If any Covenantor and/or any Controlled Company is offered or becomes aware of any business opportunity directly or indirectly to engage in or own a Restricted Business (the "**New Business Opportunity**"):

(a) he/she shall promptly notify the Company of such New Business Opportunity in writing and refer the same to the Company for consideration, and shall provide the relevant information to the Company in order to enable it to make an informed assessment of such opportunity; and

(b) he/she shall not, and shall procure that his/her Controlled Persons or Controlled Companies not to, invest or participate in any project and New Business Opportunity, unless such project and New Business Opportunity shall have been rejected by the Company and the principal terms of which the Covenantor or his/her Controlled Persons or Controlled Companies invest or participate in are no more favourable than those made available to the Company.

A Covenantor may only engage in the New Business Opportunity if (i) a notice is received by the Covenantor from the Company confirming that the New Business Opportunity is not accepted and/or does not constitute competition with the Restricted Business (the "**Non-acceptance Notice**"); or (ii) the Non-acceptance Notice is not received by the Covenantor within 10 days after the proposal of the New Business Opportunity is received by the Company.

**3. General Undertaking**

In order to ensure the performance of the above non-competition undertakings, the Covenantors will:

(a) as required by the Company, provide all information necessary for the independent non-executive Directors to conduct annual examination with regard to the compliance of the terms of the Deed of Non-competition and the enforcement of it;

(b) procure the Company to disclose to the public either in the annual report of the Company or issuing a public announcement in relation to any decisions made by the independent non-executive Directors with regard to the compliance of the terms of the Deed of Non-competition and the enforcement of it;

(c) where the independent non-executive Directors shall deem fit, make a declaration in relation to the compliance of the terms of the Deed of Non-competition in the annual report of the Company, and ensure that the disclosure of information relating to compliance with the terms of the Deed of Non-competition and the enforcement of it are in accordance with the requirements of the GEM Listing Rules; and

(d) that during the period when the Deed of Non-competition is in force, fully and effectually indemnify the Company against any losses, liabilities, damages, costs, fees and expenses as a result of any breach on the part of such Covenantor of any statement, warrant or undertaking made under the Deed of Non-competition.

Any Director who has an actual or potential material interest in the New Business Opportunity shall abstain from attending (unless their attendance is specifically requested by the remaining non-interested Directors) and voting at, and shall not count towards the quorum for, any meeting or part of a meeting convened to consider such New Business Opportunity. The remaining non-interested Directors will be responsible for assessing the New Business Opportunities and making the decision as to whether or not to take up any particular New Business Opportunity.

The Deed of Non-Competition and the rights and obligations thereunder are conditional upon (a) the Listing Division granting the listing of, and the permission to deal in, the Shares in issue and to be issued as described in this prospectus, and (b) the Listing and dealings in the Shares on GEM taking place.

The obligations of the Covenantors under the Deed of Non-competition will remain in effect until the date on which the Shares cease to be listed on GEM (other than suspension of trading of the Shares of the Company for any other reason).

As the Convenantors have given non-competition undertakings in favour of the Company, and none of them have interests in other businesses that compete or are likely to compete with the business of the Group save as disclosed above, the Directors are of the view that they are capable of carrying on the Group's business independently of the Convenantors following the Listing.

Save as disclosed above, none of the Convenantors and the Directors has interests in any business which competes or is likely to compete with the business of the Group.

## SHARE CAPITAL

The authorised and issued share capital of the Company are as follows:

| *Authorised:* | | *HK$* |
|---|---|---|
| 1,000,000,000 | Shares of HK$0.01 each | 10,000,000 |

*Shares issued and to be issued, fully paid or credited as fully paid:*

| | | |
|---|---|---|
| 38,000,000 | Shares in issue as at the date of this prospectus | 380,000 |
| 202,000,000 | Shares to be issued pursuant to the Capitalisation Issue | 2,020,000 |
| 80,000,000 | Shares to be issued under the Placing | 800,000 |

*Total Shares issued and to be issued immediately upon completion of the Placing and the Capitalisation Issue*

| | | |
|---|---|---|
| 320,000,000 | Shares | 3,200,000 |

## ASSUMPTIONS

The above table assumes the Placing and the Capitalisation Issue become unconditional and the issue of Shares pursuant thereto is made as described herein. It takes no account of any Shares which may be allotted and issued or repurchased by the Company under the general mandates for the allotment and issue or repurchase of Shares granted to the Directors as referred to below or otherwise.

## MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, the Company must maintain the "minimum prescribed percentage" of 25% of the total issued share capital of the Company in the hands of the public (as defined in the GEM Listing Rules).

## RANKING

The Placing Shares are ordinary shares in the share capital of the Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank equally for all dividends or other distributions declared, made or paid after the date of this prospectus save for the entitlements under the Capitalisation Issue.

## GENERAL MANDATE TO ISSUE SHARES

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with the Shares with an aggregate nominal value of not more than the sum of:

(a) 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue; and

(b) the aggregate nominal value of share capital of the Company repurchased by the Company (if any) under the general mandate to repurchase Shares set out below.

This mandate will expire at the earliest of:

(a) the conclusion of the Company's next annual general meeting; or

(b) the expiration of the period within which the Company is required by any applicable laws of the Cayman Islands or the Articles to hold its next annual general meeting; or

(c) the time when such mandate is varied, revoked or renewed by an ordinary resolution of the Shareholders in a general meeting.

For further details of this general mandate, please refer to the paragraph headed "Resolutions in writing passed by the sole Shareholder on 25 June 2011" in Appendix V to this prospectus.

## GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase such number of Shares with an aggregate nominal value of not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue or immediately following completion of the Placing and the Capitalisation Issue.

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules requirements is set out under the paragraph headed "Repurchase by the Company of its own securities" in Appendix V to this prospectus.

This mandate will expire at the earliest of:

(a) the conclusion of the Company's next annual general meeting; or

(b) the expiration of the period within which the Company is required by any applicable laws of the Cayman Islands or the Articles to hold its next annual general meeting; or

(c) time when such mandate is varied, revoked or renewed by an ordinary resolution of the Shareholders in a general meeting.

For further details of this repurchase mandate, please refer to the paragraph headed "Resolutions in writing passed by the sole Shareholder on 25 June 2011" in Appendix V to this prospectus.

*You should read the following discussion and analysis of the Group's financial condition and results of operations in conjunction with the Group's combined financial information included in the Accountant's Report, which has been prepared in accordance with HKFRSs, as set out in Appendix I to this prospectus, and the unaudited pro forma financial information included in Appendix II to this prospectus, in each case together with the accompanying notes. This discussion contains forward-looking statements that involve risks and uncertainties. The Group's actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under the section headed "Risk Factors" and elsewhere in this prospectus.*

## 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 a 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 food at affordable prices with emphasis on food quality.

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'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.

For the years ended 31 December 2009 and 2010, the Group generated revenue of approximately HK$126.5 million and HK$210.3 million, respectively and profit attributable to owners of the Company of approximately HK$9.4 million and HK$10.0 million, respectively.

## BASIS OF PREPARATION

The combined financial information of the Group has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants. 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 Track Record Period have been prepared using the financial information of the companies engaged in the operation of Chinese restaurants in Hong Kong. The net assets and results of the Group were combined using the existing book values from the perspective of the Controlling Shareholders.

Further information on the basis of preparation of financial information is set out in note 2.1 in section II of the Accountant's Report contained in Appendix I to this prospectus.

## FACTORS AFFECTING RESULTS OF OPERATIONS

The results of operations and financial condition of the Group have been and will continue to be affected by a number of factors, including those discussed below.

### The business is affected by any material change in the economic condition in Hong Kong

The Group's results of operations are vulnerable to the economy in Hong Kong. The Group offers Chinese wedding banquet, dining services for large-scale events and serves Chinese cuisines to the customers. The results of operations of the Group are therefore directly affected by the demand for dining out and such events, which is dependent upon, among others, the disposable income of the target customers. The target customers are more willing to host such events, spend more money in dining services and wedding banquet with higher disposable income of the target customers.

### The ability of the Group to adjust its menu in response to change in consumer's taste

The Group is keen on developing innovative and specialty Chinese cuisine utilising authentic and ancient recipes to attract customers and differentiate itself from competitors, the Group may not be able to promptly adapt to the change in the consumer's taste. If the Group fails to satisfy the needs of its target customer by promptly adjust its recipes and menu, the operating results and financial performance of the Group could be affected.

### The ability of the Group to adjust the pricing policy in response to the changing market conditions

In deciding the prices for 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. The prices of each menu item also depend on the ability of the Group to continue to reach the target customers. If the Group fails to attract the target customers or to adjust the pricing strategy in response to the changing market environment, the operating results and financial performance of the Group could be affected.

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 seasoning, which are mainly sourced from Hong Kong and China. The Group has no long-term contract with its suppliers and is not able to control the price levels of food ingredients. The costs of food ingredients and price fluctuations will have a direct impact on the Group's profitability.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the combined financial information requires management to make judgements, estimates and assumptions that affect revenue, expenses, carrying amounts of assets and liabilities and the disclosure of contingent liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates. The following sets out certain critical accounting policies that our management considers to be critical in the portrayal of the financial position and results of operations.

### 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 loan and receivables are recognised using the original effective interest rate.

**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. 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.

**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.

**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.

## SUMMARY OF RESULTS OF OPERATIONS

The following is a summary of the Group's combined results for the Track Record Period which has been extracted from the Accountant's Report set out in Appendix I to this prospectus. The combined results were prepared on the basis set out in note 2.1 in section II of the Accountant's Report contained in Appendix I to this prospectus.

| | Year ended 31 December | |
|---|---|---|
| | **2009** | **2010** |
| | *HK$'000* | *HK$'000* |
| Revenue | 126,476 | 210,320 |
| Other income | 449 | 1,332 |
| Cost of inventories consumed | (45,410) | (75,558) |
| Employee benefits expenses | (33,671) | (61,784) |
| Depreciation | (5,538) | (7,718) |
| Operating lease rental expenses | (10,107) | (22,101) |
| Utilities expenses | (8,299) | (15,702) |
| Other gains – net | 35 | 564 |
| Other operating expenses | (9,813) | (14,229) |
| Operating profit | 14,122 | 15,124 |
| Finance costs – net | (552) | (669) |
| Profit before income tax | 13,570 | 14,455 |
| Income tax expenses | (2,387) | (3,177) |
| Profit 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 |

## PRINCIPAL INCOME STATEMENT COMPONENTS

### Revenue

The Group is principally engaged in the provision of food catering services through a chain of Chinese restaurants in Hong Kong. The table below sets forth a breakdown of the Group's revenue in each restaurant and as a percentage of its total revenue during the Track Record Period:

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2010 | | |
| | *Revenue (HK$'000)* | *% of total revenue* | *Operating margin (%) (Note 1)* | *Revenue (HK$'000)* | *% of total revenue* | *Operating margin (%) (Note 1)* |
| Plentiful Delight Banquet Restaurant | 84,302 | 66.7 | 8.9 | 91,715 | 43.6 | 13.4 |
| Lam Tei Red Seasons | 28,330 | 22.4 | 18.9 | 35,387 | 16.8 | 18.6 |
| Tuen Mun Red Seasons | 13,844 | 10.9 | 9.1 | 36,055 | 17.1 | 0.4 |
| Shatin Red Seasons | – | – | – | 27,434 | 13.1 | (7.1) |
| Tsuen Wan Red Seasons | – | – | – | 19,729 | 9.4 | (13.3) |
| | 126,476 | 100.0 | | 210,320 | 100.0 | |

*Note:*

1. The operating margin of a restaurant was calculated as the operating profit (excluding intercompany management fee) divided by the revenue of the respective restaurant.

The Group offered Chinese wedding banquet and dining services for large-scale events, and served Chinese cuisine to customers during the Track Record Period. The wedding banquet and dining services offered by the Group are normally settled 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.

#### *Plentiful Delight Banquet Restaurant*

The operating margin of Plentiful Delight Banquet Restaurant increased from approximately 8.9% for the year ended 31 December 2009 to approximately 13.4% for the year ended 31 December 2010. The Plentiful Delight Banquet Restaurant has been benefited by the increase in revenue of approximately HK$7.4 million for the year ended 31 December 2010. The operating lease rental expenses and depreciation as a percentage of revenue has decreased as a result of the increase in revenue during the year. In addition, the Plentiful Delight Banquet Restaurant has improved its operating efficiency, in particular, the kitchen consumable expenses decreased by approximately 40.9% from approximately HK$2.2 million for the year ended 31 December 2009 to approximately HK$1.3 million for the year ended 31 December 2010.

***Lam Tei Red Seasons***

The operating margin of Lam Tei Seasons remain relatively stable at approximately 18.9% and 18.6% for the year ended 31 December 2009 and 2010 respectively.

***Tuen Mun Red Seasons***

The operating margin of Tuen Mun Red Seasons decreased from approximately 9.1% for the year ended 31 December 2009 to approximately 0.4% for the year ended 31 December 2010. The decrease in operating margin was mainly attributable to the reduction in the monthly revenue for the restaurant during the year ended 31 December 2010. The Director consider the decrease in monthly revenue for the restaurant was due to temporary appeal of other newly renovated Chinese restaurants in the region to customers of the Group during the year ended 31 December 2010. With the Directors' briefing of the decrease in revenue would be temporary, the decrease in monthly revenue for the year ended 31 December 2010 had resulted in an increase in operating costs, among others, utilities expenses, staff costs and operating lease rental expenses as a percentage of revenue for the year ended 31 December 2010.

***Shatin Red Seasons and Tsuen Wan Red Seasons***

The Shatin Red Seasons and Tsuen Wan Red Seasons, which were opened in January 2010 and June 2010 respectively, incurred operating loss for the year ended 31 December 2010. The operating loss were primarily the result of the initial set up cost, including kitchen consumables, operation staff cost and operating lease rental expenses incurred before the commencement of the respective restaurants during the year ended 31 December 2010.

**Other income**

The other income comprises mainly (i) sub-letting income of approximately HK$300,000 and HK$600,000 for the years ended 31 December 2009 and 2010, respectively; and (ii) management fee income of approximately HK$16,000 and HK$670,000 for the years ended 31 December 2009 and 2010 respectively. The sub-letting income represents rental income received from Independent Third Parties for sub-letting the warehouse in Tuen Mun. The management fee income represented administrative, accounting and introduction services provided to U-Cellar. U-Cellar experienced staffing difficulties as a result of staff turnover. As such, the Group provided such management service to U-Cellar since late 2009 which resulted in the increase. The provision of management services has been ceased in 2011.

**Cost of inventories consumed**

The cost of inventories consumed mainly represents food ingredients for the restaurant operations. The major food ingredients purchased by the Group includes, but not limited to, vegetables, meat, seafood, dried food, frozen food, beverages and seasoning. While the Group has not entered into any long-term contract with its existing suppliers from whom it purchases food ingredients, the Group procures to purchase its food ingredients from a list of approved food ingredient supplier. 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.

Despite the growing inflation, in particular, on food prices in recent years, cost of inventories consumed represented approximately 35.9% and 35.9% of the revenue of the Group for the years ended 31 December 2009 and 2010 respectively, which remained at a consistent level during the Track Record Period.

**Employee benefits expenses**

Staff costs primarily consist of salaries, wages and allowances, pension costs, provision for unutilised annual leave and other employee benefits. The table below sets forth the employee benefits expenses by category during the Track Record Period:

| | **Year ended 31 December** | | | |
|---|---|---|---|---|
| | **2009** | | **2010** | |
| | *HK$'000* | *%* | *HK$'000* | *%* |
| Salaries, wages and allowances | 30,831 | 91.5 | 56,934 | 92.1 |
| Pension costs – defined contribution plans | 1,394 | 4.2 | 2,600 | 4.2 |
| Provision of unutilised annual leave | 235 | 0.7 | 278 | 0.5 |
| Other employee benefits | 1,211 | 3.6 | 1,972 | 3.2 |
| | 33,671 | 100.0 | 61,784 | 100.0 |

For the years ended 31 December 2009 and 2010, the employee benefits expenses accounted for approximately 26.6% and 29.4% of the revenue of the Group respectively.

The Directors did not receive any remuneration during the Track Record Period. In consultation with the remuneration committee of the Company, the Group plans to remunerate Directors in the future fairly but not excessively for their efforts, time and contributions made to the Group and the remuneration of Directors would be determined with reference to the performance of each director, the performance of the Group for the financial year concerned and the prevailing market conditions.

**Depreciation**

Depreciation represents depreciation charges for property, plant and equipment including, among others, land and building, leasehold improvements, equipment and kitchen utensils, furniture and fixtures, air-conditioning and motor vehicles of the Group.

**Operating lease rental expenses**

Operating lease rental expenses represent the rental expenses paid for the restaurant operations, office and warehouse. For the years ended 31 December 2009 and 2010, operating lease rental expenses accounted for approximately 8.0% and 10.5% of the revenue of the Group respectively.

**Utilities expenses**

Utilities expenses primarily consist of gas expenses, electricity expenses and water supplies of the Group. For the years ended 31 December 2009 and 2010, the utilities expenses accounted for approximately 6.6% and 7.5% of the revenue of the Group respectively.

**Other gains – net**

Other gains mainly include the gain or loss on disposal of property, plant and equipment, fair value gain or loss on financial assets at fair value through profit or loss and realised gain or loss on financial assets at fair value through profit or loss which related to listed securities in Hong Kong and investment fund.

**Other operating expenses**

The other operating expenses represent mainly expenses incurred for the Group's operations, including kitchen consumables, laundry expenses, cleaning expenses, repair and maintenance expenses, insurance, credit card and Octopus card commission, printing and stationery expenses and legal and professional fee. The table below sets forth the other operating expenses by category during the Track Record Period:

| | **Year ended 31 December** | | | |
|---|---|---|---|---|
| | **2009** | | **2010** | |
| | *HK$'000* | *%* | *HK$'000* | *%* |
| Kitchen consumables | 2,962 | 30.2 | 3,593 | 25.3 |
| Laundry expenses | 1,121 | 11.4 | 1,752 | 12.3 |
| Cleaning expenses | 928 | 9.5 | 1,424 | 10.0 |
| Repair and maintenance expenses | 1,181 | 12.0 | 1,309 | 9.2 |
| Insurance | 796 | 8.1 | 1,088 | 7.6 |
| Credit card and Octopus card commission | 370 | 3.8 | 899 | 6.3 |
| Printing and stationery | 483 | 4.9 | 848 | 6.0 |
| Legal and professional fee | 159 | 1.6 | 540 | 3.8 |
| Others | 1,813 | 18.5 | 2,776 | 19.5 |
| | 9,813 | 100.0 | 14,229 | 100.0 |

For the years ended 31 December 2009 and 2010, the other operating expenses accounted for approximately 7.8% and 6.8% of the revenue of the Group respectively.

**Finance costs – net**

Finance costs mainly represent interest charged on the bank loans and bank overdrafts, unwinding of discount of provision for reinstatement cost after netting off the interest income from cash at bank. Provision for reinstatement costs is initially 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. Provisions are measured at the present value of the reinstatement costs expected to be required to settle the obligation. Such provision is unwinded and charged to the income statement as interest expense as a result of passage of time.

**Income tax expenses**

The income tax of the Group is provided for at the applicable tax rates in accordance with the relevant law and regulations in Hong Kong. The Group had no tax obligation arising from other jurisdictions during the Track Record Period. Hong Kong profits tax had been provided on the estimated assessable profits arising in Hong Kong at the applicable tax rate of 16.5% during the Track Record Period. The effective tax rates for the years ended 31 December 2009 and 2010 were 17.6% and 22.0% respectively. The increase in effective tax rate for the year ended 31 December 2010 as compared to that for the year ended 31 December 2009 was mainly due to the tax losses of two restaurants of the Group amounting to approximately HK$4,425,000 for which no deferred tax asset has been recognized because of the uncertainty as to whether future taxable profit will be generated by these restaurants against which the tax losses can be utilised given the relatively short operating history of these restaurants.

**Non-controlling interests**

Non-controlling interests represent the interests of non-controlling shareholders in the net results of the non-wholly owned subsidiaries of the Group.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF THE OPERATIONS

The following set forth the management's discussion and analysis of the results of the operations during the Track Record Period. The following discussion should be read in conjunction with the combined financial information of the Group during the Track Record Period in the Accountant's Report, the text of which is set forth in Appendix I to this prospectus.

**Comparison of the Group's results for the year ended 31 December 2010 with those for the year ended 31 December 2009**

*Revenue*

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. 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.

The revenue of the Group is primarily driven by the reputation of the restaurant and also its brand. 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 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 33.3% for the year ended 31 December 2009 to 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.

*Other income*

The other income increased from approximately HK$449,000 for the year ended 31 December 2009 to approximately HK$1,332,000 for the year ended 31 December 2010, representing an increase of approximately 196.7%. Such increase was mainly due to (i) the increase in sub-letting income for part of the warehouse in Tuen Mun rented to an Independent Third Party since mid-2009, and (ii) the increase in management fee income from U-Cellar for services rendered by the Group during the year ended 31 December 2010. U-Cellar experienced staffing difficulties as a result of staff turnover. As such, the Group provided such management service to U-Cellar since late 2009 which resulted in the increase. The provision of management services have been ceased in 2011.

*Cost of inventories consumed*

The cost of inventories consumed for the year ended 31 December 2010 amounted to approximately HK$75.6 million, representing an increase of approximately 66.4% as compared with that of the year ended 31 December 2009. The increase was in line with the increase of revenue of the Group for the year ended 31 December 2010. The cost of inventories consumed remained consistent at 35.9% for the years ended 31 December 2009 and 2010.

*Employee benefits expenses*

The employee benefits expenses for the year ended 31 December 2010 amounted to approximately HK$61.8 million, representing an increase of approximately 83.5% as compared with that of the year ended 31 December 2009. The number of staff increase from 334 as at 31 December 2009 to 539 as at 31 December 2010, representing an increase of approximately 61.4% as compared with that of the year ended 31 December 2009. Such increase was primarily due to the establishment of two new restaurants during the year ended 31 December 2010.

In order to ensure the smooth operation of the new restaurants, operation staffs were recruited prior to the establishment of Shatin Red Seasons and Tsuen Wan Red Seasons during the year ended 31 December 2010. The employee benefits expenses as a percentage of revenue increased from approximately 26.6% for the year ended 31 December 2009 to approximately 29.4% for the year ended 31 December 2010.

*Depreciation*

The depreciation for the year ended 31 December 2010 amounted to approximately HK$7,718,000, representing an increase of approximately 39.4% as compared with that of the year ended 31 December 2009. Such increase was in line with the increase in the additions in property, plant and equipment as a result of the opening of two new restaurants for the year ended 31 December 2010.

*Operating lease rental expenses*

The operating lease rental expenses for the year ended 31 December 2010 amounted to approximately HK$22.1 million, representing an increase of approximately 118.7% as compared with that of the year ended 31 December 2009. The Group had entered into three additional lease agreements for the opening of three new restaurants since August 2009. The Group incurred operating lease rental expenses prior to the commencement of operation of the new restaurants for renovation and preparation of the restaurant opening. As such, the operating lease rental expenses as a percentage of revenue increased from approximately 8.0% for the year ended 31 December 2009 to approximately 10.5% for the year ended 31 December 2010.

*Utilities expenses*

The utilities expenses for the year ended 31 December 2010 amounted to approximately HK$15.7 million, representing an increase of approximately 89.2% as compared with that of the year ended 31 December 2009. The increase was primarily due to the establishment of the Shatin Red Seasons, Tsuen Wan Red Seasons and Tuen Mun Red Seasons since August 2009. The utilities expenses, which consist of gas expenses, electricity expenses and water supplies of the Group, surged according to the consumption of the respective services and were primarily driven by the expansion in the restaurant network of the Group. The utilities expenses as a percentage of revenue of the Group remained stable at approximately 6.6% and 7.5% for the years ended 31 December 2009 and 2010 respectively.

*Other gains – net*

The other gains increased from approximately HK$35,000 for the year ended 31 December 2009 to approximately HK$564,000 for the year ended 31 December 2010. Such increase was mainly due to the gain on disposal of property, plant and equipment of approximately HK$740,000 which was partially offset by the effect of loss on disposal of listed securities in Hong Kong and investment fund of approximately HK$96,000 and fair value loss of investment fund of approximately HK$80,000.

*Other operating expenses*

The other operating expenses for the year ended 31 December 2010 amounted to approximately HK$14,229,000, representing an increase of approximately 45.0% as compared with that of the year ended 31 December 2009. Such increase was primarily due to the increase in operating expenses as a result of opening of Shatin Red Seasons, Tsuen Wan Red Seasons and Tuen Mun Red Seasons since August 2009.

The other operating expenses as a percentage of the revenue remained stable at approximately at 7.8% and 6.8% for the years ended 31 December 2009 and 2010 respectively.

*Finance costs – net*

The finance costs for the year ended 31 December 2010 amounted to approximately HK$669,000, representing an increase of approximately 21.2% as compared with that of the year ended 31 December 2009. The borrowings were fully settled during the year ended 31 December 2010, most of which were settled towards the end of 2010, resulting in an increase in finance costs in 2010 as compared to that of 2009.

*Income tax*

The income tax expenses for the year ended 31 December 2010 amounted to approximately HK$3,177,000, representing an increase of approximately 33.1% as compared to the year ended 31 December 2009.

The effective income tax rate for the years ended 31 December 2009 and 2010 were 17.6% and 22.0% respectively. The increase in effective income tax rate for the year ended 31 December 2010 as compared with that of 2009 was primarily due to the unrecognised deferred tax asset of approximately HK$730,000 as at 31 December 2010 in respect of the tax loss amounting to approximately HK$4,425,000 arising from the newly established restaurants in 2010, Shatin Red Seasons and Tsuen Wan Red Seasons.

*Non-controlling interests*

Non-controlling interests decreased by approximately 26.0%, from approximately HK$1,781,000 for the year ended 31 December 2009 to approximately HK$1,318,000 for the year ended 31 December 2010. Such decrease was attributable to the decrease in the aggregate amount of profits made by the non wholly-owned subsidiaries during the year ended 31 December 2010.

*Profit attributable to owners of the Company and net profit margin*

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 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.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances the operations through a combination of advances from the directors, internal generated cash flows and bank borrowings. As at 31 December 2010, the Group had cash and cash equivalents of approximately HK$16,968,000.

The capital requirements in the past mainly related to opening and upgrading of restaurants in Hong Kong. The Group has historically met its capital requirements principally with cash generated from the operations, and met its remaining capital requirement through advances from the directors and bank borrowings. The capital requirements in the coming years will include the opening of restaurants in Hong Kong. The management of the Group expects that the planned capital expenditure will be met by the estimated net proceeds from the Placing and other financial resources available including net cash generated from operating activities.

As at 31 December 2009 and 2010, the Group had net current liabilities of approximately HK$6,554,000 and HK$5,837,000 respectively.

| | As at 31 December | | As at 30 April |
|---|---|---|---|
| | **2009** | **2010** | **2011** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | (unaudited) |
| **Current assets** | | | |
| Inventories | 1,610 | 3,393 | 3,237 |
| Trade receivables | 488 | 459 | 757 |
| Deposits, prepayments and other receivables | 2,390 | 7,974 | 11,205 |
| Income tax recoverable | – | 281 | 281 |
| Amount due from a related company | 208 | 670 | 917 |
| Amounts due from directors | 12,207 | 2,604 | – |
| Amount due from a non-controlling shareholder of a subsidiary | – | 1,100 | – |
| Financial assets at fair value through profit or loss | 1,974 | 905 | 967 |
| Pledged bank deposits | – | 1,500 | 1,500 |
| Cash and cash equivalents | 13,802 | 16,968 | 16,462 |
| **Total current assets** | 32,679 | 35,854 | 35,326 |
| **Current liabilities** | | | |
| Trade payables | 7,504 | 9,769 | 8,565 |
| Other payables, accruals and deposits received | 7,328 | 12,684 | 10,757 |
| Income tax payable | 4,069 | 6,246 | 4,138 |
| Amounts due to directors | 3,395 | 12,988 | 23,222 |
| Amounts due to non-controlling shareholders of a subsidiary | 675 | 4 | – |
| Bank borrowings | 16,262 | – | – |
| **Total current liabilities** | 39,233 | 41,691 | 46,682 |
| **Net current liabilities** | (6,554) | (5,837) | (11,356) |

The net current liabilities of the Group as at 31 December 2009, 31 December 2010 and 30 April 2011 was primarily due to the short-term bank borrowings of approximately HK$16,262,000 as at 31 December 2009, the net amounts due to directors of approximately HK$10,384,000 as at 31 December 2010 and amounts due to directors of approximately

HK$23,222,000 as at 30 April 2011, resulting from financing of renovation of existing restaurants, opening of new restaurants and declaration of dividend. The short-term bank borrowings as at 31 December 2009 accounted for approximately 41.4%, the net amounts due to directors as at 31 December 2010 accounted for approximately 24.9% and amount due to directors as at 30 April 2011 accounted for approximately 49.8% of the total current liabilities. The major factor which attributable to the net current liabilities position of the Group as at 31 December 2009, 31 December 2010 and 30 April 2011 despite the healthy operating cash inflow was the expenditure in relation to the opening of new restaurants during the respective years and the declaration of dividend in March 2011. To maintain the adequate level of working capital of the Group, the Directors have provided financial assistance to the Group in meeting the capital expenditure of the Company and replaced the bank borrowings of the Group which result in increased level of amount due to Directors.

The balances of amounts due from a related company, amounts due from/ to directors and amounts due from/ to a non-controlling shareholder of a subsidiary as at 30 April 2011 will be settled before listing.

In order to better manage the cash flow and liquidity of the Group, the management of the Group plans to:

1) enhance the quality of services and improve profitability to increase the cash flow generated from operating activities;

2) maintain an optimal capital structure to reduce the cost of capital;

3) obtain support from banks to secure financing;

4) control budget to balance funding needs and supply; and

5) prioritise and plan the capital expenditures carefully and avoid excessive spending.

Based on the current financial conditions, the management of the Group believes the cash and cash equivalents, the cash inflow from operations, and the net proceeds from the Placing will enable the Group to meet its working capital, capital expenditures and other funding requirements for the foreseeable future. The management of the Group does not foresee any material capital expenditure, apart from the budgeted opening of new restaurants, in the foreseeable future. The management of the Group believes that, with the continuous net cash generated from operating activities, and the net proceeds from the Placing, the Group will be able to improve its liquidity position.

The following table summaries the Group's cash flows for the year ended 31 December 2009 and 2010:

| | Year ended 31 December | |
|---|---|---|
| | **2009** | **2010** |
| | *HK$'000* | *HK$'000* |
| Net cash generated from operating activities | 6,107 | 25,411 |
| Net cash used in investing activities | (4,691) | (13,369) |
| 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 | 13,802 | 16,968 |

**Cash flow generated from operating activities**

The Group derives the cash inflow from operations principally from the receipts for the restaurant operations, whereas the cash outflow from operations is principally for the payment of the purchase of food ingredients and raw materials, operating lease rental, staff costs, utilities and kitchen consumables.

Net cash generated from operating activities for the year ended 31 December 2010 was approximately HK$25,411,000. The Group generated net cash from operating activities before movements in working capital of approximately HK$22,278,000, and adjusted for net working capital inflow of approximately HK$5,613,000, interest paid of approximately HK$588,000 and Hong Kong profit tax paid of approximately HK$1,892,000. The increase in net working capital was primarily attributable to the repayment of amount due from directors of the Company of approximately HK$9,603,000 as a results of the payment of the expenditures in relation to the opening of two new restaurants of the Group during the year by the financial assistance provided by the Directors, and increase in trade payables and other payables, accruals and deposits received of approximately HK$2,265,000 and HK$5,356,000 respectively as a results of the expansion of the restaurant business and partially offset by the increase in deposits, prepayments and other receivables of approximately HK$7,688,000 arise from the deposit paid for professional fees for Listing, the rental deposits and the utilities deposit paid for the opening of two restaurants during the year.

Net cash generated from operating activities for the year ended 31 December 2009 was approximately HK$6,107,000. The Group generated net cash from operating activities before movements in working capital of approximately HK$19,625,000, and adjusted for net working capital outflow of approximately HK$13,004,000 and interest paid of approximately

HK$514,000. The decrease in net working capital was primarily attributable to the increase in amounts due from directors of the Company by approximately HK$12,058,000, as a result of advances to directors of the Company which were financed by the bank borrowings obtained by the Group during the year ended 31 December 2009, increase in deposits, prepayments and other receivables of approximately HK$3,132,000 arising from the rental deposit and utilities deposit paid for the opening of new restaurant, and partially offset by the increase in trade payables and other payables, accruals and deposits received of approximately HK$1,570,000 and HK$2,605,000 respectively as a result of the expansion of the restaurant business.

**Cash flow used in investing activities**

The Group derives the cash inflow from investing activities primarily from proceeds of disposal of property, plant and equipment. The cash outflow from investing activities is primarily for the acquisition and prepayment for acquisition of the property, plant and equipment.

Net cash used in investing activities for the year ended 31 December 2010 was approximately HK$13,369,000. This was primarily due to the purchase of property, plant and equipment of approximately HK$14,859,000 as a result of opening of two new restaurants, and partially offset by the proceeds from the disposal of property, plant and equipment of approximately HK$1,503,000.

Net cash used in investing activities for the year ended 31 December 2009 was approximately HK$4,691,000. This was primarily due to the purchase of property, plant and equipment of approximately HK$4,318,000 as a result of opening of a new restaurant and prepayment for acquisition of property, plant and equipment of approximately HK$416,000.

**Cash flow generated from/(used in) financing activities**

The Group derives the cash inflow from financing activities principally from bank borrowings and advances from directors. The cash outflow from financing activities is principally due to repayment of bank borrowings, dividend payment and repayment to related companies.

Net cash used in financing activities for the year ended 31 December 2010 was approximately HK$8,876,000. The cash outflow mainly represented repayment of borrowings of approximately HK$16,262,000 and dividends paid of approximately HK$1,536,000, and partially offset by the advances of approximately HK$9,593,000 from directors of the Company for the expansion and general working capital use of the Group.

Net cash generated from financing activities for the year ended 31 December 2009 amounted to approximately HK$8,810,000. The cash inflow mainly represented the net proceeds from borrowings of approximately HK$11,861,000 and increase in amounts due to directors of approximately HK$2,387,000, and partially offset by the dividend payment, repayment to related companies and former immediate holding company of a subsidiary of approximately HK$2,390,000, HK$1,953,000 and HK$1,022,000 respectively.

*Working capital*

Taking into account the financial resources available to the Group, including the internally generated funds, and the estimated net proceeds of the Placing, the directors of the Company are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this prospectus.

## PRINCIPAL COMPONENTS OF STATEMENT OF FINANCIAL POSITION

### Property, plant and equipment

As at 31 December 2009 and 2010, the net book value of property, plant and equipment amounted to approximately HK$15,050,000 and HK$21,938,000 respectively. The increase in the property, plant and equipment as at 31 December 2010 by approximately 45.8%, as compared with that as at 31 December 2009, was mainly due to the additions of leasehold improvements of approximately HK$8,451,000, equipment and kitchen utensils of approximately HK$3,666,000, furniture and fixtures of approximately HK$1,161,000 and air-conditioning of approximately HK$1,451,000 as a result of the opening of two new restaurants for the year ended 31 December 2010, which was offset by the increase in the corresponding depreciation charges for these additional items.

### Rental deposits paid

Rental deposits represented the non-current portion of the deposits paid for the leasing of the Group's leased properties. As at 31 December 2009 and 2010, the rental deposits paid amounted to approximately HK$3,283,000 and HK$5,387,000 respectively. The increase in rental deposits as at 31 December 2010 by approximately 64.1%, as compared with that as at 31 December 2009, was mainly due to the increase in rental deposits paid for the two newly opened restaurants during the year ended 31 December 2010.

### Deferred income tax assets

Deferred income tax assets were mainly recognised on the temporary differences in respect of tax depreciation. As at 31 December 2009 and 2010, the deferred tax assets were approximately HK$468,000 and HK$999,000 respectively. The increase in deferred tax assets as at 31 December 2010 by approximately 113.5%, as compared with that as at 31 December 2009, was mainly attributable to the recognition of temporary differences in respect of tax depreciation for the year ended 31 December 2010 as a result of the addition of property, plant and equipment.

**Inventories**

As at 31 December 2009 and 2010, the inventories were approximately HK$1,610,000 and HK$3,393,000 respectively. The increase in inventories as at 31 December 2010 by approximately 110.7%, as compared to that as at 31 December 2009, was mainly due to the opening of two new restaurants during the year ended 31 December 2010. The subsequent sale and usage of inventories up to the Latest Practicable Date accounted for approximately 95.9% of the total inventories as at 31 December 2010.

The inventory turnover days were stable at both years ended 31 December 2009 and 2010. The following table sets out the inventory turnover days for the Track Record Period:

| | **Year ended 31 December** | |
|---|---|---|
| | **2009** | **2010** |
| Inventory turnover days *(Note)* | 10 | 10 |

*Note:* Inventory turnover days for the years ended 31 December 2009 and 2010 are computed by the average of the beginning and ending food and beverages balances included in the inventories for the year, divided by the cost of inventories consumed for the year and multiplied by 365 days.

**Trade receivables**

The wedding banquet and dining services offered by the Group are normally settled by cash or credit cards. Accordingly, our trade receivables balance as at the year-end date mainly represented the credit card receivables in relation to the revenue generated on the year end date in the respective financial years, and such receivables were normally settled in the week immediately after the year end date.

As at 31 December 2009 and 2010, trade receivables remained stable at approximately HK$488,000 and HK$459,000 respectively. The following table sets forth the aging analysis of trade receivables of the Group as at the end of each year during the Track Record Period:

| | **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 following table sets out the trade receivable turnover days for the Track Record Period:

| | Year ended 31 December | |
|---|---|---|
| | **2009** | **2010** |
| Trade receivable turnover days *(Note)* | 1 | 1 |

*Note:* Trade receivable turnover days for the years ended 31 December 2009 and 2010 are computed by the average of the beginning and ending trade receivable balances, divided by the total revenue for the year and multiplied by 365 days.

The trade receivable turnover days were stable for both years ended 31 December 2009 and 2010. As at the Latest Practicable Date, all the trade receivables as at 31 December 2010 were subsequently settled.

**Deposits, prepayments and other receivables**

Deposits, prepayments and other receivables represent mainly utilities and other deposits paid, prepayments for professional services, other prepayments and other receivables.

The following table sets out the details of the deposits, prepayments and other receivables at the end of each year during the Track Record Period:

| | As at 31 December | |
|---|---|---|
| | **2009** | **2010** |
| | *HK$'000* | *HK$'000* |
| Utilities and other deposits paid | 1,048 | 2,670 |
| Prepayments for professional expenses | – | 3,668 |
| Other prepayments | 955 | 1,336 |
| Other receivables | 387 | 300 |
| | 2,390 | 7,974 |

As at 31 December 2009 and 2010, deposits, prepayments and other receivables amounted to approximately HK$2,390,000 and HK$7,974,000 respectively, representing an increase of 233.6% in 2010. The increase in deposits, prepayments and other receivables as at 31 December 2010 was mainly due to the increase in prepayments for professional expenses for the purpose of listing and utility deposits for the two new restaurants during the year ended 31 December 2010.

**Financial assets at fair value through profit or loss**

As at 31 December 2009 and 2010, the financial assets at fair value through profit or loss amounted to approximately HK$1,974,000 and HK$905,000 respectively, representing a decrease of 54.2% in 2010. The decrease in financial assets at fair value through profit or loss in 2010 was mainly due to the disposal of investment fund with an opening carrying value of approximately HK$989,000 during the year ended 31 December 2010.

The primary investment objectives of the Group for its idle cash and cash equivalent is to enhance the returns on its temporarily surplus liquidity without bearing significant investment risk. The investment horizon is expected to range from three months to three years or more and there will be no speculative trading allowed. Subject to the approval of the Board of any material investment, the chief financial officer of the Company will be responsible for the monitoring and managing the overall risk of the investment portfolio. The Directors will review its investment policy from time to time taking into accounts the present and forthcoming cash flow status and the operational requirement of working capital together with the business development plan of the Group.

**Trade payables**

The trade payables mainly represented utilities, food ingredients and raw materials purchased for the restaurants. The payment terms were mostly 45 days after the end of the month in which the relevant purchases were made. As at 31 December 2009 and 2010, the trade payables amounted to approximately HK$7,504,000 and HK$9,769,000 respectively. The increase in the trade payables as at 31 December 2010 by approximately 30.2%, as compared to that as at 31 December 2009, was mainly due to the increase in food ingredients and raw materials purchased for the two new restaurants during the year ended 31 December 2010.

The following table sets out the aging analysis of trade payables of the Group as at the end of each year during the Track Record Period:

| | **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 |

Up to the Latest Practicable Date, all of the trade payable as at 31 December 2010 was subsequently settled.

The following table sets out the trade payable turnover days for the Track Record Period:

| | Year ended 31 December | |
|---|---|---|
| | **2009** | **2010** |
| Trade payable turnover days *(Note)* | 54 | 42 |

*Note:* Trade payable turnover days for the years ended 31 December 2009 and 2010 are computed by the average of the beginning and ending trade payable balances for the year, divided by the cost of inventories consumed for the year and multiplied by 365 days.

**Other payables, accruals and deposits received**

The other payables, accruals and deposits received mainly represented accrued salaries and wages, accrued rental expenses, deposits received and other accruals and payables.

The following table sets out the details of other payables, accruals and deposits received as at the end of each year during the Track Record Period:

| | 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 |

As at 31 December 2009 and 2010, other payables, accruals and deposits received amounted to approximately HK$7,328,000 and HK$12,684,000 respectively. The increase in other payables, accruals and deposits received as at 31 December 2010 by approximately 73.0%, as compared with that as at 31 December 2009, was mainly due to the increase in accrued salaries and wages, accrued rental expenses and other accruals for the two new restaurants as at 31 December 2010.

**Provision for reinstatement costs**

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. As at 31 December 2009 and 2010, the provision for reinstatement costs amounted to approximately HK$1,618,000 and HK$2,209,000 respectively. The increase in the provision for reinstatement costs as at 31 December 2010 by approximately 36.5%, as compared with that as at 31 December 2009 was mainly contributed by the signing of new tenancy agreement with reinstatement clause for a new restaurant during the year ended 31 December 2010.

## INDEBTEDNESS

### Bank and other borrowings

The following table sets out the bank and other borrowings of the Group as at 31 December 2009, 31 December 2010 and 30 April 2011:

| | As at 31 December | | As at 30 April |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| | *HK$'000* | *HK$'000* | *HK$'000* (unaudited) |
| Secured bank borrowings | 16,262 | – | – |
| Amounts due to directors | 3,395 | 12,988 | 23,222 |
| | 19,657 | 12,988 | 23,222 |

Bank borrowings of the Group as at 31 December 2009 were secured by (a) the Group's land and building with a total net book value of HK$731,000, leasehold improvement with total net book value of HK$962,000 and air-conditioning with total net book value of HK$598,000; (b) the Group's bank deposit of HK$1,500,000; (c) guarantees given by the Controller Shareholders and companies controlled by them; (d) certain properties of the Controlling Shareholders; and (e) certain properties and investment funds held by a company controlled by the Controlling Shareholders.

As at 31 December 2010, the Group had total banking facilities of HK$6,500,000, within which an amount of HK$1,500,000 was utilised for letters of guarantee from a bank in favour of several utility companies, and the remaining facilities of HK$5,000,000 were not utilised.

As at 30 April 2011, being the latest practicable date for the purpose of this indebtedness statement, the Group had a banking facility amounting to HK$1,500,000 which was utilised for the abovementioned letters of guarantee and pledged by the Group's bank deposit amounting to HK$1,500,000.

The Group had decided to rescind all guarantees and security in the banking facilities with an aim to minimise the number of continuing connected transactions and re-negotiate terms of the banking facilities prior to Listing. In connection with such initiative, the Group has repaid all bank borrowings during the year ended 31 December 2010 and replaced with amounts due to directors as at 31 December 2010 and 30 April 2011 which served as a transitional arrangement for the Group to have sufficient time to negotiate new banking facilities with favourable terms. As at the Latest Practicable Date, the Group had total banking facilities of approximately HK$21,500,000, of which approximately HK$21,491,000 were utilised. The Group has not defaulted on any repayment obligations with respect to the bank borrowings, and the Group has not encountered any difficulties in securing financing from banks during the Track Record Period.

The amounts due to directors will be settled by bank borrowings of the Group before Listing.

**Contingent liabilities**

The following table sets out the contingent liabilities not provided for during the Track Record Period:

| | As at 31 December | |
|---|---|---|
| | **2009** | **2010** |
| | *HK$'000* | *HK$'000* |
| Guarantees given by the Group in favour of banks in respect of banking facilities of connected parties of the Group | 36,902 | 35,829 |

As at 30 April 2011, the latest practicable date for the purpose of this indebtedness statement, the guarantees given by the Group as set out in the above table have been released.

**Disclaimer**

Save as disclosed in the paragraph head "Indebtedness" in this section, as at 30 April 2011, being the latest practicable date for the purpose of this indebtedness statement, the Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

## MATERIAL INDEBTEDNESS CHANGE

Save as disclosed in the paragraph head "Indebtedness" in this section, the Directors confirm that there has been no material change in the Group's indebtedness since 30 April 2011 up to the Latest Practicable Date.

## CAPITAL COMMITMENTS

The following table sets out our capital commitments in respect of property, plant and equipment as at the end of each year during the Track Record Period:

| | 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 |

The total capital commitments increased from approximately HK$3,925,000 for the year ended 31 December 2009 to approximately HK$18,241,000 for the year ended 31 December 2010, as a result of the additions of property, plant and equipment for Red Royalty Banquet Restaurant in 2011 which will be financed by the net proceeds from the Placing. For details of the use of proceeds, please refer to the paragraph headed "Business Strategies" in the section headed "Future Plans and Use of Proceeds" in this prospectus.

## OPERATING LEASE COMMITMENTS

Future minimum operating lease rental payable under non-cancellable operating lease in respect of land and buildings are 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 |

## FINANCIAL RATIO ANALYSIS

Set out below are certain major financial ratios of the Group:

| | As at 31 December | |
|---|---|---|
| | **2009** | **2010** |
| Current ratio *(Note 1)* | 0.83 | 0.86 |
| Quick ratio *(Note 2)* | 0.79 | 0.78 |
| Debt to equity ratio *(Note 3)* | 59.7% | N/A |

| | Year ended 31 December | |
|---|---|---|
| | **2009** | **2010** |
| Net profit margin *(Note 4)* | 7.4% | 4.7% |
| Return on equity *(Note 5)* | 92.2% | 53.4% |

*Notes:*

(1) Current ratio is calculated by dividing total current assets by total current liabilities.

(2) Quick ratio is calculated by dividing total current assets minus inventories by total current liabilities.

(3) Debt to equity ratio is calculated as net debt divided by total capital. Net debt is calculated as the total borrowings (including bank borrowings, amounts due to directors and amounts due to non-controlling shareholders of a subsidiary) less cash and cash equivalents. Total capital is calculated as total assets less total liabilities.

(4) Net profit margin equals to profit attributable to owners of the Company divided by revenue for each year and multiplied by 100%.

(5) Return on equity equals to profit attributable to the owners of the Company for each year divided by the equity attributable to the owners of the Company and multiplied by 100%.

### Current ratio

As at 31 December 2009 and 2010, the current ratio amounted to approximately 0.83 and 0.86 respectively. The current ratios remained stable as at the respective year end dates.

### Quick ratio

As at 31 December 2009 and 2010, the quick ratio amounted to approximately 0.79 and 0.78 respectively. The quick ratios remained stable as at the respective year end dates.

### Debt to equity ratio

As at 31 December 2009, the debt to equity ratio was approximately 59.7%. The Group turned into a net cash position as at 31 December 2010. Debt to equity ratio is not applicable to the Group as at 31 December 2010 as the Group's cash and cash equivalents is larger than its debt amount as at 31 December 2010.

### Net profit margin

The net profit margin 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.

### Return on equity

The return on equity for the year ended 31 December 2009 and 2010 was approximately 92.2% and 53.4% respectively. The decreasing trend was mainly due to the significant increase in equity attributable to owners of the Company from approximately HK$10,195,000 as at 31 December 2009 to approximately HK$18,667,000 as at 31 December 2010 as a result of the profit generated during 2010.

## RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in this prospectus, the Directors are of the opinion that these transactions were conducted on normal commercial terms.

For analysis of related party transactions, please refer to the Accountant's Report as set out in Appendix I to this prospectus in addition to the transactions detailed elsewhere in this prospectus.

## OFF BALANCE SHEET TRANSACTIONS

The Group has not entered into any material off balance sheet transactions or arrangements during the Track Record Period.

## DIVIDEND AND DIVIDEND POLICY

For the years ended 31 December 2009 and 2010, the Group declared and paid dividends of approximately HK$2,390,000 and HK$1,536,000 respectively to the shareholders of the companies now comprising the Group.

In March 2011 and May 2011, the Group declared and paid interim dividends of HK$16.0 million and HK$7.0 million respectively.

After completion of the Placing, the Shareholders will be entitled to receive dividends only when declared by the Directors. The payment and the amount of any future dividends will be at the discretion of the Directors and will depend on the future operations and earnings, capital requirements and surplus, general financial condition and other factors that the Directors deem relevant. As these factors and the payment of dividends is at the discretion of the Board, which reserves the right to change its plan on the payment of dividends, there can be no assurance that any particular dividend amount, or any dividend at all, will be declared and paid in the future. Investors should note that historical dividend distributions are not indicative of the Group's future dividend distribution policy.

Cash dividends on the shares, if any, will be paid in Hong Kong dollars.

### Foreign currency risk

Since most of the revenue and the payment of expenditure are made in Hong Kong dollars, the Directors consider that the Group is not exposed to significant foreign exchange risk.

## PROPERTY INTERESTS AND PROPERTY VALUATION

As at the Latest Practicable Date, the Group leased eight premises in Hong Kong respectively as offices, restaurant premises and warehouses, the details of which are set out in Appendix III to this prospectus.

Ample Appraisal Limited, an independent property valuer, has valued the property interests of the Group as at 31 March 2011 and is of the opinion that the value of the property interests is of no commercial value. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set out in Appendix III to this prospectus.

## UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 7.31 of the GEM Listing Rules are set out below to illustrate the effect of the Placing on the net tangible assets of the Group as at 31 December 2010 as if the Placing had taken place on that date. The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the net tangible assets of the Group had the Placing been completed as at 31 December 2010 or at any future date.

The unaudited pro forma adjusted net tangible assets is based on the combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2010 as shown in section I of the Accountant's Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

| | Combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2010[(1)] | Estimated net proceeds from the Placing[(2)] | Unaudited pro forma adjusted net tangible assets attributable to owners of the Company[(3)] | Unaudited pro forma adjusted net tangible assets per Share[(4)] |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$* |
| Based on a Placing Price of HK$0.60 per Share | 18,667 | 30,881 | 49,548 | 0.15 |
| Based on a Placing Price of HK$1.00 per Share | 18,667 | 62,079 | 80,746 | 0.25 |

(1) The combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2010 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the combined net assets of the Group attributable to owners of the Company as at 31 December 2010 of approximately HK$18,667,000.

(2) The estimated net proceeds from the Placing are based on the respective Placing Prices of HK$0.60 and HK$1.00 per Placing Share, respectively, after deduction of estimated related fees and expenses.

(3) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2010.

(4) The unaudited pro forma adjusted net tangible assets per Share are determined after the adjustments as described in Note 2 above and on the basis that 320,000,000 Shares are issued and outstanding immediately following the completion of the Reorganisation, the Capitalisation Issue and the Placing.

## QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT FINANCIAL RISKS

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.

As at 31 December 2009 and 2010, if the interest rate on all bank 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 of the investments held by the Group and 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, 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 there is no significant liquidity risk as the Group has sufficient committed facilities to fund their operations.

All financial liabilities are repayable on demand or within one year as at 31 December 2009 and 2010.

## DISTRIBUTABLE RESERVES

As the Company was not incorporated in the Cayman Islands until 10 February 2011, as at 31 December 2010, the Company had no reserves available for distribution to its shareholders.

## DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

The Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

## NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2010, being the date to which the latest audited financial statements of the Group were made up.

## BUSINESS OBJECTIVES

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. The Group primary objectives are to strengthen its position in the Chinese restaurant industry in Hong Kong, opportunistically diversify its service and product offerings and further expand its business operations.

## BUSINESS STRATEGIES

The Group will endeavour to achieve its business objectives and adopt the following business strategies in accordance with the schedule set out in the paragraph headed "Implementation plan" in this section. The respective scheduled completion times are based on certain bases and assumptions as set out in the paragraph headed "Bases and assumptions" in this section. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors as set out under the section headed "Risk Factors" in this prospectus. Therefore, there is no assurance that the Group's business plans will materialise in accordance with the estimated time frame and that the Group's future plans will be accomplished at all.

### Diversify service and product offerings with the implementation of a new branding strategy

- ***Opening of 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 core businesses 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. After the implementation of this branding strategy, the Group will operate six restaurants under three brands.

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 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 targeted customers.

As at the Latest Practicable Date, the building structure of Red Royalty Banquet Restaurant is being modified by the landlord. It is currently expected that the handover of the properties from the landlord to the Group will be in mid-September 2011. The leasehold improvements for the restaurant will be commenced by that time and the Group will then commence the application of various licences required for opening of the Red Royalty Banquet Restaurant. The Group expects to employ new staff in November 2011 and commence business in mid-December 2011.

For general information on Red Royalty Banquet Restaurant, please refer to the sub-paragraph headed "Red Royalty Banquet Restaurant" of the paragraph headed "Restaurant network expansion" in the section headed "Business" in this prospectus.

The Directors believe that this new branding strategy can assist the Group in addressing different needs of the customers and enlarging its market share in the Chinese restaurant industry which will further promote the Group's business.

- ***Opening of another new restaurant***

The Group is currently targeting to open one more restaurant under the brands of *Red Seasons Aroma Restaurant* (季季紅風味酒家) in early 2013, with an expected saleable area and seating capacity of approximately 1,000 sq.m and approximately 40 tables respectively. It will remain focused on selecting optimal location with strong target customer traffic according to the restaurant network expansion strategy, and site selection criteria of the Group. Through expansion and opening of more restaurants in Hong Kong, the Group can enjoy further economies of scale through discounts given by suppliers for bulk purchase. This can also increase the Group's market share and assist the Group in serving more customers. The Directors currently have no concrete plan in mind in respect of the location of such new restaurant as it depends on the then availability of rental property which suit the criteria of the Company. The estimated investment costs are approximately HK$9 million for the restaurant which will be financed by the net proceeds from the Placing.

To manage the overall growth, the Group will closely monitor and evaluate the performance of each restaurant on a regular basis and take timely and appropriate measures to enhance their business performance.

- ***Opening of other food outlets***

The Group may also increase its source of income by horizontal expansion to reach a more diversified group of customers. In order to achieve this, the Group plans to explore business opportunities concerning the opening of other food outlets, such as self-service fast food restaurants serving various Chinese dishes, such as dim sum, main dishes and siu mei with open kitchen concept and a bakery shop selling traditional Chinese pastries and cakes, such as wife cakes (老婆餅), preserved egg pastries (皮蛋酥) and crispy Chinese pastries with pork (雞仔餅) supported by an internal production line. In this regard, the Group intends to conduct feasibility studies and market research to identify new business prospectus, assess market potential and estimate the level of capital required and interpret market trends.

**Upgrade existing restaurant facilities**

The Directors believe that, in addition to the quality of food and services, the decoration of the restaurants is also important to the customers' dining experience. In order to stay competitive in the market, the Group will continue to enhance its existing restaurant equipment, utensils and general supplies in existing restaurants with the aim to provide its customers with comfortable dining environment. The Group also intends to identify quality kitchen and cooking tools, equipment and appliances, particularly those which are durable, easy to clean and proven to increase efficiency.

**Strengthen staff training**

The Group appointed Tiptop Consultants Ltd., a long-established and professional management consulting company serving organizations and individuals in Hong Kong and Asia Pacific, to provide staff training for Plentiful Delight Banquet Restaurant in 2007. The Group has engaged Tiptop Consultants Ltd. to provide staff training for its other restaurants from 2011. The training programmes provided and will be provided by Tiptop Consultants Ltd. mainly focus on improving customer service, enhancing food knowledge, food safety and personal hygiene, maximising management efficiency, promoting unique concept and style and strengthening value-added service of the management and staff of the Group.

In addition to appointing external professional, the Group has provided and shall continue to provide 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. The Group has distributed and shall continue to distribute 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.

The Group plans to organise more training in the second half of 2011 and early 2012 for the opening of Red Royalty Banquet Restaurant at the end of this year.

**Enhance marketing activities to promote brands awareness**

The Group plans to strengthen its marketing efforts in promoting its brands in terms of brand-building, advertising and other means of promotion. The marketing activities of the Group shall aim to reinforce its reputation in providing high quality of food and delicious Chinese dishes. The Group will recruit a full time marketing manager to promote its brand and restaurants. In addition, the Group has engaged external professional public relation officer to enhance brands awareness and investors relationship. The Group has launched various point-of-purchase advertising displays and press releases. The Group expects to increase its advertising activities through various media, such as radio and television, and restaurant-level promotional activities.

**Formation of strategic partnerships or cooperation arrangements with reputable industry partners in Hong Kong and China**

As at the Latest Practicable Date, 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 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. Other possible methods for expansion of the Group's business include forming joint ventures with its partners and acquisition of suitable restaurant operators or food brand owners in Hong Kong and China. The Group has not identified any joint venture partners or acquisition targets and has not formed any strategic partnership as at the Latest Practicable Date. The Group will apply the net proceeds for conducting feasibility study, research and due diligence work, set up costs and relevant expenses relating to the formation of strategic partnerships or cooperation arrangements with reputable industry partners in Hong Kong and China.

## IMPLEMENTATION PLAN

The Group will endeavour to achieve the following milestone events during the period from the Latest Practicable Date to 31 December 2013, and their respective scheduled completion time are based on certain bases and assumptions as set out in paragraph headed "Bases and assumptions" in this section. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors as set out in the section headed "Risk Factors" in this prospectus. Therefore, there is no assurance that the Group's business plans will materialise in accordance with the estimated time frame and that the Group's future plans will be accomplished at all.

| | **From the Latest Practicable Date to 31 December 2011**<br>*HK$'000* | **For the six months ending 30 June 2012**<br>*HK$'000* | **For the six months ending 31 December 2012**<br>*HK$'000* | **For the six months ending 30 June 2013**<br>*HK$'000* | **For the six months ending 31 December 2013**<br>*HK$'000* |
|---|---|---|---|---|---|
| **1. Diversify service and product offerings with the implementation of a new branding strategy** | | | | | |
| • Opening of Red Royalty Banquet Restaurant | Progress payment for the capital expenditure of Red Royalty Banquet Restaurant | Progress payment for the capital expenditure of Red Royalty Banquet Restaurant | Progress payment for the capital expenditure of Red Royalty Banquet Restaurant | – | – |
| *Amount to be applied from the net proceeds of the Placing* | 18,000 | 3,000 | 3,000 | – | – |
| • Opening of another one new restaurant | – | – | – | Progress payment for the capital expenditure of the new restaurant | Progress payment for the capital expenditure of the new restaurant |
| *Amount to be applied from the net proceeds of the Placing* | – | – | – | 4,500 | 4,500 |

| | | From the Latest Practicable Date to 31 December 2011<br>*HK$'000* | For the six months ending 30 June 2012<br>*HK$'000* | For the six months ending 31 December 2012<br>*HK$'000* | For the six months ending 30 June 2013<br>*HK$'000* | For the six months ending 31 December 2013<br>*HK$'000* |
|---|---|---|---|---|---|---|
| | • Opening of other food outlets | Conduct feasibility study on new services and business diversification | Conduct feasibility study on new services and business diversification | Conduct feasibility study on new services and business diversification | Conduct feasibility study on new services and business diversification | Conduct feasibility study on new services and business diversification |
| | *Amount to be applied from the net proceeds of the Placing* | 200 | 200 | 200 | 200 | 200 |
| **2.** | **Upgrade existing restaurant facilities** | Acquire, upgrade or replace of the existing equipments and facilities to enhance restaurant operation environment | Acquire, upgrade or replace of the existing equipments and facilities to enhance restaurant operation environment | Acquire, upgrade or replace of the existing equipments and facilities to enhance restaurant operation environment | Acquire, upgrade or replace of the existing equipments and facilities to enhance restaurant operation environment | Acquire, upgrade or replace of the existing equipments and facilities to enhance restaurant operation environment |
| | *Amount to be applied from the net proceeds of the Placing* | 200 | 200 | 200 | 200 | 200 |
| **3.** | **Strengthen staff training** | Provide training program to employees to enhance their skills | Provide training program to employees to enhance their skills | Provide training program to employees to enhance their skills | Provide training program to employees to enhance their skills | Provide training program to employees to enhance their skills |
| | *Amount to be applied from the net proceeds of the Placing* | 600 | 300 | 300 | 300 | 380 |

| | | From the Latest Practicable Date to 31 December 2011 *HK$'000* | For the six months ending 30 June 2012 *HK$'000* | For the six months ending 31 December 2012 *HK$'000* | For the six months ending 30 June 2013 *HK$'000* | For the six months ending 31 December 2013 *HK$'000* |
|---|---|---|---|---|---|---|
| 4. | **Enhance marketing activities to promote brands awareness** | Launch marketing activities for brand building | Launch marketing activities for brand building | Launch marketing activities for brand building | Launch marketing activities for brand building | Launch marketing activities for brand building |
| | *Amount to be applied from the net proceeds of the Placing* | 1,000 | 500 | 500 | 500 | 500 |
| 5. | **Formation of strategic partnerships or cooperation arrangements with reputable industry partners in Hong Kong and China** | Operate with business partner to develop distribution channels and/or business presence in Hong Kong and China | Operate with business partner to develop distribution channels and/or business presence in Hong Kong and China | Operate with business partner to develop distribution channels and/or business presence in Hong Kong and China | Operate with business partner to develop distribution channels and/or business presence in Hong Kong and China | Operate with business partner to develop distribution channels and/or business presence in Hong Kong and China |
| | *Amount to be applied from the net proceeds of the Placing* | 400 | 400 | 400 | 400 | 400 |
| | | 20,400 | 4,600 | 4,600 | 6,100 | 6,180 |

## BASES AND ASSUMPTIONS

Potential investors should note that the attainability of the Group's business objectives depends on a number of assumptions, in particular:

- there will be no material changes in the existing political, legal, fiscal, social or economic conditions in Hong Kong, the PRC or in any other places in which any member of the Group carries on its business or will carry on its business;

- the Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;

- there will be no material changes in the bases or rates of taxation in Hong Kong, the PRC or in any other places in which any member of the Group operates or will operate;

- there will be no material changes in legislation or regulations whether in Hong Kong or elsewhere materially affecting the business carried on by the Group;

- there will be no significant changes in the Group's business relationship with its existing strategic and business partners;

- there will be no significant changes in the Group's business relationship with its major customers;

- there will be no material changes in the funding required for each of the scheduled achievements as outlined under the paragraph headed "Implementation plan" in this section;

- the Group can use its trademark(s) for exploring its restaurants business in China legally; and

- the Group will not be materially affected by the risk factors as set out in the section headed "Risk Factors" in this prospectus.

## REASONS FOR THE PLACING AND USE OF PROCEEDS

The Company intends to raise funds by the Placing in order to pursue its business objectives as set out in the paragraph headed "Business objectives" in this section.

The Directors believe that the Listing will enhance the Group's profile and recognition and the net proceeds from the Placing will strengthen the Group's financial position such that the Group is fully equipped to pursue the business plans set out in this section.

Assuming a Placing Price of HK$0.8 per Placing Share, being the mid-point of the indicative Placing Price range of HK$0.6 to HK$1.0 per Placing Share, the net proceeds from the Placing, after deducting related expenses, are estimated to amount to approximately HK$46.5 million. The Group intends to apply such net proceeds from Placing as follows:

- approximately 73.1% of the net proceeds, or approximately HK$34.0 million, for the diversification of service and product offerings with the implementation of a new brand strategy among which

  – approximately 51.6% of the net proceeds, or approximately HK$24.0 million will be applied for the opening of Red Royalty Banquet Restaurant;

  – approximately 19.4% of the net proceeds, or approximately HK$9.0 million will be applied for the opening of one other new restaurant; and

  - approximately 2.1% of the net proceeds, or approximately HK$1.0 million will be applied for the opening of other food outlets;

- approximately 2.1% of the net proceeds, or approximately HK$1.0 million, for the upgrading of existing restaurant facilities;

- approximately 4.1% of the net proceeds, or approximately HK$1.9 million, for the strengthening of staff training;

- approximately 6.5% of the net proceeds, or approximately HK$3.0 million, for the enhancement of marketing activities to promote brand awareness;

- approximately 4.3% of the net proceeds, or approximately HK$2.0 million for the formation of strategic partnerships or cooperation arrangements with reputable industry partners in Hong Kong and China; and

- the remaining approximately 9.9% of the net proceeds, or approximately HK$4.6 million as additional general working capital of the Group.

According to current estimates, the Group expects that the net proceeds from the Placing of approximately HK$46.5 million, the cash in bank and on hand as at the Latest Practicable Date together with the projected cash flow from operations will be sufficient to finance the implementation of the Company's future plans up to 31 December 2013.

If the final Placing Price is set at the highest or lowest point of the indicative Placing Price range, the net proceeds of the Placing will increase or decrease by approximately HK$15.6 million, respectively. In such event, the net proceeds will be used in the same proportions as disclosed above irrespective of whether the Placing Price is determined at the highest or lowest point of the indicative Placing Price range.

In summary, the implementation of the future plans for the period from the Latest Practicable Date to 31 December 2013 will be entirely funded by the net proceeds from the Placing as follows:

| | From the Latest Practicable Date to 31 December 2011 *(HK$ million)* | For the six months ending 30 June 2012 *(HK$ million)* | For the six months ending 31 December 2012 *(HK$ million)* | For the six months ending 30 June 2013 *(HK$ million)* | For the six months ending 31 December 2013 *(HK$ million)* | Total *(HK$ million)* |
|---|---|---|---|---|---|---|
| Diversify service and product offerings with the implementation of a new branding strategy | 18.2 | 3.2 | 3.2 | 4.7 | 4.7 | 34.0 |
| Upgrade existing restaurant facilities | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 1.0 |
| Strengthen staff training | 0.6 | 0.3 | 0.3 | 0.3 | 0.4 | 1.9 |
| Enhance marketing activities to promote brands awareness | 1.0 | 0.5 | 0.5 | 0.5 | 0.5 | 3.0 |
| Formation of strategic partnerships or cooperation arrangements with reputable industry partners in Hong Kong and China | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 2.0 |
| Total | 20.4 | 4.6 | 4.6 | 6.1 | 6.2 | 41.9 |

The remaining balance of approximately HK$4.6 million will be used as additional general working capital of the Group.

Save as provided for under the Underwriting Agreement, neither the Sponsor nor any of its associates has or may, as a result of the Placing, have any interest in any securities of the Company or any other member of the Group (including rights to subscribe for such securities).

Neither the Sponsor nor any of its associates has accrued any material benefit as a result of the successful outcome of the Placing, other than the following:

(a) in taking up the underwriting obligations under the Underwriting Agreement;

(b) by way of an underwriting commission to be paid to the Sponsor for acting as one of the Underwriters to the Placing pursuant to the Underwriting Agreement;

(c) by way of documentation and financial advisory fee to be paid to the Sponsor for acting as the sponsor of the Placing;

(d) certain associates of the Sponsor whose usual and ordinary courses of business involve trading of and dealing in securities may derive commissions from the trading of and dealing in securities of the Company or provide margin financing in connection thereto or purchase or sell securities of the Company or hold securities of the Company for investment purposes after its Listing on GEM.

None of the directors and employees of the Sponsor has any directorship in the Company or any other companies comprising the Group.

## UNDERWRITERS

Quam Securities Company Limited
Convoy Investment Services Limited
Goldin Equities Limited

## UNDERWRITING ARRANGEMENTS AND EXPENSES

### The Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company will conditionally place the Placing Shares with institutional, professional and other investors at the Placing Price subject to the terms and conditions in the Underwriting Agreement and this prospectus. Subject to, among other conditions, the Listing Division granting the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may fall to be issued pursuant to the Capitalisation Issue) and to certain other conditions set out in the Underwriting Agreement being fulfilled, the Underwriters have severally agreed to subscribe for or procure subscribers for their respective applicable proportions of the Placing Shares on the terms and conditions of the Underwriting Agreement and this prospectus.

### Grounds for termination

The Lead Manager (for itself and on behalf of the Underwriters) shall have the absolute right to terminate the arrangements set out in the Underwriting Agreement by notice in writing given to the Company (for itself and on behalf of the Controlling Shareholders) by the Lead Manager (for itself and on behalf of the Underwriters) at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date, if there shall develop, occur, exist or come into effect:

(i) any new law or regulation or any material change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the Cayman Islands, Samoa or any relevant jurisdiction; or

(ii) any adverse change (whether or not permanent) in local, national or international stock market conditions; or

(iii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or

(iv) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the Cayman Islands, Samoa or any relevant jurisdiction; or

(v) any change in the business or in the financial or trading position of the Group or otherwise; or

(vi) any change or development (whether or not permanent), or any event or series of events resulting in any change in the financial, legal, political, economic, military, industrial, fiscal, regulatory, market (including stock market) or currency matters or condition in Hong Kong, the Cayman Islands, Samoa or any relevant jurisdiction; or

(vii) a general moratorium on commercial banking business activities in Hong Kong or any relevant jurisdiction declared by the relevant authorities; or

(viii) any event of force majeure including but without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out,

which in the reasonably opinion of the Lead Manager (for itself and on behalf of the Underwriters):

(a) might be materially adverse to the business, financial condition or prospects of the Group taken as a whole; or

(b) might have a material adverse effect on the success of the Placing or might have the effect of making any part of the Underwriting Agreement incapable of implementation or performance in accordance with its terms; or

(c) makes it inadvisable or inexpedient to proceed with the Placing.

Without prejudice to the above, if, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date, it comes to the notice of the Lead Manager:

(i) any matter or event showing any of the warranties of the Underwriting Agreement to be untrue, inaccurate or misleading when given or repeated or any material breach of any of the warranties or any other provisions of the Underwriting Agreement by any part thereto (other than the Sponsor, the Lead Manager and the Underwriters), which is considered, in the reasonably opinion of the Lead Manager (for itself and on behalf of the Underwriters), to be material in the context of the Placing; or

(ii) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus and the placing letter, would have constituted a material omission in the opinion of the Lead Manager (for themselves and on behalf of the Underwriters) in the context of the Placing; or

(iii) any statement contained in this prospectus and the placing letter reasonably considered to be material by the Lead Manager which is discovered to be or becomes untrue, incorrect or misleading in any respect considered in the reasonably opinion of the Lead Manager (for itself and on behalf of the Underwriters) to be material in the context of the Placing; or

(iv) any event, act or omission which gives rise or is likely to give rise to any material liability of any of the Company and the Controlling Shareholders pursuant to the indemnities contained in the Underwriting Agreement.

The Lead Manager (for itself and on behalf of the Underwriters) shall be entitled (but not bound) by notice in writing to the Company (for itself and on behalf of the Controlling Shareholders) on or prior to such time to terminate the Underwriting Agreement.

**Undertakings**

Under the Underwriting Agreement,

(A) (a) each of the Controlling Shareholders undertakes to and covenants with the Company, the Sponsor, the Lead Manager, the Underwriters and the Stock Exchange that save as permitted under the GEM Listing Rules, he/she/it shall not and shall procure that the relevant registered holders shall not:

(i) in the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholder is made in this prospectus and ending on the date which is six months from the Listing Date (the "**First 6-Month Period**"), sell, dispose of, nor enter into any agreement to dispose of or otherwise create any mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third-party right or interest, other encumbrance or security interest of any kind, or another type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect ("**Encumbrances**") in respect of any of the Shares which he/she/it is shown in this prospectus to be the beneficial owner(s); and

(ii) in the period of six months commencing on the date immediately following the date on which the First 6-Month Period expires, sell, dispose of, nor enter into any agreement to dispose of or otherwise create any Encumbrances in respect of any of the Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such Encumbrances, he/she/it would cease to be a controlling shareholder (as defined in the GEM Listing Rules) of the Company;

these restrictions shall not apply to any Shares which the Controlling Shareholders or any of his/her/its respective associates may acquire or become interested in following the Listing Date;

(b) each of the Controlling Shareholders undertakes to and covenants with the Company, the Sponsor, the Lead Manager, the Underwriters and the Stock Exchange that:

(i) in the event that he/she/it pledges or charges any of his/her/its direct or indirect interest in the Shares under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant periods specified in paragraph (a) above, he/she/it must inform the Company, the Sponsor and the Lead Manager immediately thereafter, disclosing the details as specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and

(ii) having pledged or charged any of his/her/its interests in the Shares under paragraph (i) above, he/she/it must inform the Company and the Lead Manager immediately in the event that he/she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Shares affected;

(B) the Company undertakes to and covenants with the Sponsor, the Lead Manager and the Underwriters, and each of the Controlling Shareholders jointly and severally undertakes to and covenants with the Sponsor, the Lead Manager and the Underwriters to procure that, save with the prior written consent of the Lead Manager (for itself and on behalf of the Underwriters) (such consent not to be unreasonably withheld or delayed), or save pursuant to the Placing or the Capitalisation Issue, the Company shall not, within the period of six months from the Listing Date:

(a) save as permitted under the GEM Listing Rules (including but not limited to Rule 17.29 of the GEM Listing Rules) and the applicable laws, allot or issue or agree to allot or issue any Shares or any other securities in the Company (including warrants or other convertible securities (and whether or not of a class already listed)); or

(b) grant or agree to grant any options, warrants or other rights carrying any rights to subscribe for or otherwise convert into, or exchange for any Shares or any other securities of the Company; or

(c) purchase any securities of the Company; or

(d) offer to or agree to do any of the foregoing or announce any intention to do so.

**Total commission, fee and expenses**

In connection with the Placing, the Underwriters will receive an underwriting commission of 2.5% of the aggregate Placing Price of all the Placing Shares, out of which they will pay any sub-underwriting commissions and selling concessions.

The Company has agreed to indemnify the Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Underwriting Agreement, and any breach by the Company of the Underwriting Agreement.

**Independence of the Sponsor**

The Sponsor satisfies the independence criteria applicable to sponsors set forth in Rule 6A.07 of the GEM Listing Rules.

**Underwriters' interests in the Company**

The Sponsor has been appointed as the compliance adviser of the Company with effect from the Listing Date until despatch of the audited consolidated financial results for the second full financial year after the Listing Date, and the Company will pay to the Sponsor an agreed fee for its provision of services with the scope required under the GEM Listing Rules.

Save for their interests and obligations under the Underwriting Agreement, none of the Sponsor, the Lead Manager and the Underwriters is interested beneficially or non-beneficially in any shares in any member of the Group or has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

## PRICE PAYABLE ON SUBSCRIPTION

The Placing Price plus 1.0% brokerage fee, a 0.003% SFC transaction levy and a 0.005% Stock Exchange trading fee make up total price payable in cash on subscription.

## CONDITIONS OF THE PLACING

The Placing will be conditional upon, among others:

(a) the Listing Division granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as described in this prospectus;

(b) the Price Determination Agreement having been executed by the Company and the Lead Manager (for itself and on behalf of the Underwriters) and becoming effective on the Price Determination Date; and

(c) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including the waiver of any condition(s) by the Lead Manager (for itself and on behalf of the Underwriters) and not being terminated in accordance with the terms of that agreement or otherwise),

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 July 2011, being the date which is 30 days after the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Placing will lapse, and thereafter all money received will be refunded to applicants of the Placing without interests and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be published by the Company on the GEM Website and the Company's website (**www.gayety.com.hk**) on the next business day following such lapse.

## THE PLACING

80,000,000 Placing Shares are being offered pursuant to the Placing, representing in aggregate 25% of the enlarged issued share capital of the Company.

The Placing is fully underwritten by the Underwriters (subject to the terms and conditions of the Underwriting Agreement (including but not limited to the Company and the Company and the Lead Manager (for itself and on behalf of the Underwriters) agreeing on the Placing Price)). Pursuant to the Placing, it is expected that the Underwriters, on behalf of the Company, will conditionally place 80,000,000 Placing Shares at the Placing Price to selected individual, professional and institutional investors in Hong Kong.

## BASIS OF ALLOCATION

Allocation of the Placing Shares to selected individual, professional and institutional investors will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investors are likely to purchase further Shares or hold or sell their Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and the Shareholders as a whole. In particular, the Placing Shares will be allocated pursuant to Rule 11.23(8) of the GEM Listing Rules, that not more than 50% of the Shares in public hands at the time of Listing will be owned by the three largest public Shareholders. There will not be any preferential treatment in the allocation of the Placing Shares to any persons.

No allocations will be permitted to nominee companies unless the name of the ultimate beneficiary is disclosed, without the prior written consent of the Stock Exchange. Details of the Placing will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

## PLACING PRICE

The Placing Price will not be more than HK$1.00 per Placing Share (and not less than HK$0.60 per Placing Share). Subscribers, when subscribing for the Placing Shares, shall pay the Placing Price plus 1.0% brokerage, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy. Assuming the Placing Price of HK$1.00 or HK$0.60 per Share (being the highest and lowest points of indicative Placing Price range respectively), investors shall pay HK$4,040.32 and HK$2,424.19 for every board lot of 4,000 Shares, respectively. The Placing Price will be fixed by an agreement expected to be entered into between the Company and the Lead Manager (for itself and on behalf of the Underwriters) on the Price Determination Date which is scheduled on or about Tuesday, 5 July 2011 or such later time and/or date as agreed between the Company and the Lead Manager (for itself and on behalf of the Underwriters). If the Company and the Lead Manager (for itself and on behalf of the Underwriters) are unable to reach an agreement on the Placing Price by the Price Determination Date or such later date as may be agreed between the Company and the Lead Manager (for itself and on behalf of the Underwriters), the Placing will not become unconditional and will lapse. Prospective investors of the Placing Shares should be aware that the Placing Price to be determined on the Price Determination Date may be, but is currently not expected to be, lower than the indicative Placing Price range stated in this prospectus.

If, the Lead Manager (for itself and on behalf of the Underwriters), with the consent of the Company, consider it appropriate (for instance, if based on the level of interest expressed by perspective investors, the indicative Placing Price range may be reduced below that stated in this prospectus at any time prior to the Price Determination Date. In such a case, the Company shall, as soon as practicable following the decision to make such reduction, and in any event not later than the Price Determination Date cause to be published on the GEM Website and the Company's website (**www.gayety.com.hk**) notice of the reduction of the indicative Placing Price range.

The indication of level of interest in the Placing and the basis of allocations of the Placing Shares will be announced on the GEM Website and the Company's website (**www.gayety.com.hk**) at or before 8:30 a.m., Thursday, 7 July 2011.

## SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Listing Division grants the listing of, and permission to deal in, the Shares on GEM and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

## COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on Friday, 8 July 2011. Shares will be traded in board lots of 4,000 Shares and are fully transferable.

*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$'000* | As at 31 December 2010 *HK$'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 | 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** | **2010** |
| | *HK$'000* | *HK$'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** | **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* |
| 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 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 |
|---|---|---|---|---|---|
| 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*

*The information set forth in this appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only.*

*The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report set forth in Appendix I to this prospectus.*

## (A) UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 7.31 of the GEM Listing Rules are set out below to illustrate the effect of the Placing on the net tangible assets of the Group as at 31 December 2010 as if the Placing had taken place on that date. The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the net tangible assets of the Group had the Placing been completed as at 31 December 2010 or at any future date.

The unaudited pro forma adjusted net tangible assets is based on the audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2010 as shown in section I of the Accountant's Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

| | **Combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2010**[(1)] | **Estimated net proceeds from the Placing**[(2)] | **Unaudited pro forma adjusted net tangible assets attributable to owners of the Company**[(3)] | **Unaudited pro forma adjusted net tangible assets per Share**[(4)] |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$* |
| Based on a Placing Price of HK$0.60 per Share | 18,667 | 30,881 | 49,548 | 0.15 |
| Based on a Placing Price of HK$1.00 per Share | 18,667 | 62,079 | 80,746 | 0.25 |

(1) The combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2010 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to owners of the Company as at 31 December 2010 of approximately HK$18,667,000.

(2) The estimated net proceeds from the Placing are based on the respective Placing Prices of HK$0.60 and HK$1.00 per Placing Share, respectively, after deduction of estimated related fees and expenses.

(3) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2010.

(4) The unaudited pro forma adjusted net tangible assets per Share are determined after the adjustments as described in Note 2 above and on the basis that 320,000,000 Shares are issued and outstanding immediately following the completion of the Reorganisation, the Capitalisation Issue and the Placing.

## (B) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

**ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF GAYETY HOLDINGS LIMITED**

We report on the unaudited pro forma financial information of Gayety Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on page II-1 under the heading of "Unaudited Pro Forma Adjusted Net Tangible Assets" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's prospectus dated 30 June 2011 (the "Prospectus"), in connection with the proposed listing of shares of the Company by way of placing (the "Placing"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Placing might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page II-1 of the Prospectus.

**Respective Responsibilities of Directors of the Company and the Reporting Accountant**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 7.31(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of Opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited combined net assets of the Group as at 31 December 2010 with the accountant's report as set out in Appendix I of the Prospectus, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the adjusted net tangible assets of the Group as at 31 December 2010 or any future date.

**Opinion**

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the Listing Rules.

**PricewaterhouseCoopers**
*Certified Public Accountants*
Hong Kong, 30 June 2011

*The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Ample Appraisal Limited, an independent property valuer, in connection with its valuation of the property interests held by the Group as at 31 March 2011.*

Ample Appraisal Ltd
AMAP
Room 604, Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

30 June 2011

The Board of Directors
Gayety Holdings Limited
Shop No. 46, Ground Floor,
Ho Shun Tai Building,
No. 10 Sai Ching Street,
Yuen Long,
New Territories,
Hong Kong Special Administrative Region

Dear Sirs,

In accordance with your instructions to value properties in which Gayety Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the Hong Kong Special Administrative Region (the "Hong Kong"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of the property interests as at 31 March 2011 (the "date of valuation").

The valuation is our opinion of market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

In valuing the property interests, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"), the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors and the International Valuation Standards published from time to time by the International Valuation Standards Council.

Our valuation has been made on the assumption that the owner sells the properties in the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the properties. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interests and no forced sale situation in any manner is assumed in our valuation.

The property interests are held by the Group under various leases in Hong Kong. We have valued them by direct comparison approach assuming sale of the property interests in their existing states. We have attributed no commercial value to the property interests, due to inclusion of non-alienation clause or otherwise due to the lack of substantial profit rents and short-term nature.

In valuing properties in Hong Kong, the Government Leases of which expired before 30 June 1997, we have taken account of the statement contained in Annex III of the Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China on the question of Hong Kong and the New Territories Leases (Extension) Ordinance 1988 that such leases had extended without premium until 30 June 2047 and that a revised annual rent equivalent to 3% of the rateable value for the time being will be charged from the date of extension.

We have caused searches to be made at the Hong Kong Land Registry in relation to the property interests located in Hong Kong. However, we have not searched the original documents to verify ownership or to ascertain any amendment. In addition, we have been, in some instances, provided by the Group with copy extracts of tenancy agreements relating to the property interests rented in Hong Kong. Where possible, we have examined the original documents to verify any amendments which may not appear on the copies handed to us.

We have not carried out detailed site measurements to verify the correctness of the floor areas in respect of the properties but have assumed that the floor areas shown on the documents and official floor plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken. We have also assumed that there was not any material change of the properties in between date of our inspection and the valuation date.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not been commissioned to carry out a structural survey nor to arrange for an inspection of the services, but in the course of our inspection, we did not note any serious defects. We are, therefore, not able to report whether the properties are free of rot, infestation or any other structural defects. For the properties we have carried out an inspection, we formulate a view as to the overall condition of the property taking into account the general appearance, the apparent standard and age of fixtures and fittings, and the existence of electricity, water and gas services.

However it must be stressed that whilst we have had regard to you with a view as to whether the buildings are free from defects or as to the possibility of latent defects which might effect our valuation. No tests were carried out on any of the services. We have assumed that utility services, such as electricity, telephone, water, etc are free from defect.

We have not arranged for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium chloride additive or pulverized fly ash, or any other deleterious material has been used in the construction of the properties. We are therefore unable to report that the properties are free from risk in this respect. For the purpose of this valuation, we have assumed that deleterious material has not been used in the construction of the properties.

We have not undertaken a survey to determine whether the mechanical and electrical systems within the properties (or the building(s) or development(s) in which they are located) will be adversely affected on or after the year 2000 and as such have assumed that the properties will be unaffected.

Unless otherwise stated, we shall rely to a considerable extent on the information provided by you or your legal or other professional advisers on such matters as statutory notices, planning approval, easements, tenure, identification of property, particulars of occupation, lettings, rentals, floor areas, matters relating to tenure, tenancies and other relevant matters.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view and we have no reason to suspect that any material information has been withheld.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

Wherever the content of this report is extracted and translated from the relevant documents supplied in Chinese context and there are discrepancies in wordings, those parts of the original documents will take prevalent.

Unless otherwise stated, all monetary sums stated in this report are in Hong Kong Dollars.

Our valuations are summarized below and the valuation certificate is attached.

Yours faithfully,
For and on behalf of
**Ample Appraisal Limited**
**Evan Yuen** *MRICS MHKIS*
*Registered Professional Surveyor*
*General Manager – Real Estate*

*Note:* Mr. Evan Yuen is a Chartered Valuation Surveyor and a Registered Professional Surveyor, who has more than 15 years' experience in the valuation of properties in the PRC, Hong Kong and the South East Asia. Mr. Evan Yuen is also a valuer on the List of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.

## SUMMARY OF VALUES

**Property interests rented and occupied by the Group in Hong Kong**

| **No.** | **Property** | **Capital value in existing state as at 31 March 2011** *HK$* |
|---|---|---|
| 1. | Portion Nos. 1 & 2, 1st Floor, Ho Shun Tai Building, No. 10 Sai Ching Street, Yuen Long, New Territories, Hong Kong | No commercial value |
| 2. | No. 1 Lam Tei Main Street (excluding temple erected therein), Lam Tei, Tuen Mun, New Territories, Hong Kong | No commercial value |
| 3. | No. 6 Lam Tei Main Street, Lam Tei, Tuen Mun, New Territories, Hong Kong | No commercial value |
| 4. | Shop Nos. 6 & 4H (also known as Shop Nos. 6, 8S1, 8T1, 8U1 & 11 or known as Restaurant 7), Level 3, Waldorf Garden, No. 1 Tuen Lee Street, Tuen Mun, New Territories, Hong Kong | No commercial value |
| 5. | 1st Floor (together with adjacent flat roof) & 2nd Floor, Victory Court, No. 185 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong | No commercial value |
| 6. | Portion of Shop No. 33 on Level 1, whole of Shop No. 33 on Level 2 and Car Parking Space No. 81 on Level 2 of the podium, Garden Rivera, Nos. 20-30 Tai Chung Kiu Road, Shatin, New Territories, Hong Kong | No commercial value |
| 7. | Shop No. 46, Ground Floor, Ho Shun Tai Building, No. 10 Sai Ching Street, Yuen Long, New Territories, Hong Kong | No commercial value |
| 8. | Lot Nos. 759RP & 764BRP in Demarcation District No. 130, Lam Tei, Tuen Mun, New Territories, Hong Kong | No commercial value |
| | Total: | **No commercial value** |

## VALUATION CERTIFICATE

### Property interests rented and occupied by the Group in Hong Kong

| | Property | Description | Particular of occupancy | Capital value in existing state as at 31 March 2011 *HK$* |
|---|---|---|---|---|
| 1. | Portion Nos. 1 & 2, 1st Floor, Ho Shun Tai Building, No. 10 Sai Ching Street, Yuen Long, New Territories, Hong Kong | The property comprises 2 adjoined commercial units on 1st floor of a 3-storey commercial and carparking podium with 2 blocks of 28-storey residential building erected thereon. The subject development was completed in about 1988.<br><br>The property extends to an approximate total saleable area of 18,428 square feet (1,712 square metres). | The property is leased to the Group under 2 separate leases from 2 parties both for a term of 10 years each at a total monthly rent of HK$523,000 and HK$565,000 for the periods commencing from 1 May 2007 to 30 April 2012 and 1 May 2012 to 30 April 2017 respectively (exclusive of rates, management fees and all other outgoings).<br><br>We have been informed that as at the date of valuation, the property was occupied by the Group as the major portion of a Chinese banquet restaurant and trading under the name of "Plentiful Delight Banquet (喜尚嘉喜宴會廳)". | No commercial value |

*Notes:*

1. Pursuant to a stamped tenancy agreement made between E-Profit Investment Limited and Jubilant Company Limited dated 11 July 2006, Portion No. 1 of the property is leased to the Group for a term of 10 years at a monthly rent of HK$200,000 and HK$220,000 for the periods commencing from 1 May 2007 to 30 April 2012 and 1 May 2012 to 30 April 2017 respectively (exclusive of rates, management fees and all other outgoings). However, all rights and obligations under the subject lease for the remaining term had been transferred to Gayety Limited on 1 January 2011 as per the Deed of Novation signed amongst E-Profit Investment Limited, Jubilant Company Limited and Gayety Limited dated 28 January 2011.

2. Pursuant to a stamped tenancy agreement made between Gladfull Investment Limited and Jubilant Company Limited dated 18 August 2006, Portion No. 2 of the property is leased to the Group for a term of 10 years at a monthly rent of HK$323,000 and HK$345,000 for the periods commencing from 1 May 2007 to 30 April 2012 and from 1 May 2012 to 30 April 2017 respectively (exclusive of rates, management fees and all other outgoings). However, all rights and obligations under the subject lease for the remaining term had been transferred to Gayety Limited on 1 January 2011 as per the Deed of Novation signed amongst Gladfull Investment Limited, Jubilant Company Limited and Gayety Limited dated 28 January 2011.

3. The Landlord of Portion No. 1 of the property, E-Profit Investment Limited, is owned as to 18% by Ms. Lau LY, the chief executive officer and an executive director of the Company. Ms. Lau LY is also a controlling shareholder of the Company (as defined in the GEM Listing Rules) and the spouse of Mr. Wong KM, the chairman and an executive director of the Company as well as a controlling shareholder of the Company (as defined in the GEM Listing Rules).

4. The Landlord of Portion No. 2 of the property, Gladfull Investment Limited, is an independent third party which is not connected with and is independent of, any directors, chief executives or the substantial shareholders of the Company or any of its subsidiaries and/or their respective associates.

5. The Tenant of the property is Gayety Limited, an indirect wholly-owned subsidiary of the Company.

6. The building falls within an area zoned for "Residential (Group A)" on Yuen Long Outline Zoning Plan No. S/YL/19 dated March 2011.

| | Property | Description | Particular of occupancy | Capital value in existing state as at 31 March 2011 *HK$* |
|---|---|---|---|---|
| 2. | No. 1 Lam Tei Main Street (excluding temple erected therein), Lam Tei, Tuen Mun, New Territories, Hong Kong | The property comprises a 2-storey commercial building (excluding a portion of ground floor which is erected with a temple). The building was completed in 1970s.<br><br>The property extends to an approximate total saleable area of 5,175 square feet (480.77 square metres). | The property is leased to the Group from an independent third party for a term of 2 years and 6 months commencing from 1 January 2011 at a monthly rent of HK$50,500 till 30 June 2011 and HK$55,000 for the remaining term of the lease (exclusive of rates, government rent, management fees and air-conditions charges).<br><br>We have been informed that as at the date of valuation, the property was occupied by the Group as the major portion of a Chinese restaurant and trading under the name of "Red Seasons Aroma Restaurant (季季紅風味酒家)". | No commercial value |

*Notes:*

1. Pursuant to a stamped tenancy agreement made between Buddhist of Chi Hong Lin Yuen, Limited and Tin Ho Restaurant Limited dated 15 June 2011, the property is leased to the Group for a term of 2 years and 6 months at a monthly rent of HK$50,500 and HK$55,000 for the periods commencing from 1 January 2011 to 30 June 2011 and 1 July 2011 to 30 June 2013 respectively (exclusive of rates, government rent, management fees and air-conditions charges).

2. The Landlord of the property, Buddhist of Chi Hong Lin Yuen, Limited, is an independent third party which is not connected with and is independent of, any directors, chief executives or the substantial shareholders of the Company or any of its subsidiaries and/or their respective associates.

3. The Tenant of the property is Tin Ho Restaurant Limited, an indirect 60% owned subsidiary of the Company.

4. The building falls within an area zoned for "Village Type Development" on Lam Tei & Yick Yuen Outline Zoning Plan No. S/TM-LTYY/6 dated March 2006.

| | Property | Description | Particular of occupancy | Capital value in existing state as at 31 March 2011 *HK$* |
|---|---|---|---|---|
| 3. | No. 6 Lam Tei Main Street, Lam Tei, Tuen Mun, New Territories, Hong Kong | The property comprises a single storey building which was completed in 1970s.<br><br>The property extends to an approximate saleable area of 1,236 square feet (114.83 square metres). | The property is leased to the Group from an independent third party for a term of 2 years commencing from 1 July 2009 to 30 June 2011 at a monthly rent of HK$9,000 (inclusive of government rent, rates and management fees). The Group has renewed the tenancy agreement with the landlord to lease the property for a term of two years commencing from 1 July 2011 and expiring on 30 June 2013.<br><br>We have been informed that as at the date of valuation, the property was occupied by the Group as portion of a Chinese restaurant and trading under the name of "Red Seasons Aroma Restaurant (季季紅風味酒家)". | No commercial value |

*Notes:*

1. Pursuant to a stamped tenancy agreement made between Buddhist of Chi Hong Lin Yuen Limited and Sencas Limited dated 20 August 2009, the property is leased to the Group for a term of 2 years commencing from 1 July 2009 to 30 June 2011 at a monthly rent of HK$9,000 (inclusive of government rent, rates and management fees). However, all rights and obligations under the subject lease for the remaining term had been transferred to Tin Ho Restaurant Limited on 1 January 2011 as per the Deed of Novation signed amongst Buddhist of Chi Hong Lin Yuen, Limited, Sencas Limited and Tin Ho Restaurant Limited dated 1 January 2011.

2. The Landlord of the property, Buddhist of Chi Hong Lin Yuen Limited, is an independent third party which is not connected with and is independent of, any directors, chief executives or the substantial shareholders of the Company or any of its subsidiaries and/or their respective associates.

3. The Tenant of the property is Tin Ho Restaurant Limited, an indirect 60% owned subsidiary of the Company.

4. The building falls within an area zoned for "Village Type Development" on Lam Tei & Yick Yuen Outline Zoning Plan No. S/TM-LTYY/6 dated March 2006.

| | Property | Description | Particular of occupancy | Capital value in existing state as at 31 March 2011 *HK$* |
|---|---|---|---|---|
| 4. | Shop Nos. 6 & 4H (also known as Shop Nos. 6, 8S1, 8T1, 8U1 & 11 or known as Restaurant 7), Level 3, Waldorf Garden, No. 1 Tuen Lee Street, Tuen Mun, New Territories, Hong Kong | The property comprises 2 adjoined commercial units on Level 3 of a 3-storey commercial and carparking podium with 4 blocks of 26-storey residential building erected thereon. The subject development was completed in about 1982.<br><br>The property extends to an approximate total saleable area of 8,512 square feet (790.78 square metres). | The property is leased to the Group from an independent third party for a term of 3 years and 8 months at a monthly basic rent of HK$400,000 and HK$411,000 for the periods commencing from 15 December 2009 to 14 August 2010 and 15 August 2010 to 14 August 2013 respectively or 12% of the monthly gross receipt, whichever is the higher (exclusive of rates, government rent and management fees).<br><br>We have been informed that as at the date of valuation, the property was occupied by the Group as a Chinese restaurant and trading under the name of "Red Seasons Aroma Restaurant (季季紅風味酒家)". | No commercial value |

*Notes:*

1. Pursuant to a stamped tenancy agreement made between Waldorf Realty Limited and Red Seasons Limited dated 24 December 2009, the property is leased to the Group for a term of 3 years and 8 months at a monthly basic rent of HK$400,000 and HK$411,000 for the periods commencing from 15 December 2009 to 14 August 2010 and 15 August 2010 to 14 August 2013 respectively or 12% of the monthly gross receipt, whichever is the higher (exclusive of rates, government rent and management fees).

2. The Landlord of the property, Waldorf Realty Limited, is an independent third party which is not connected with and is independent of, any directors, chief executives or the substantial shareholders of the Company or any of its subsidiaries and/or their respective associates.

3. The Tenant of the property is Red Seasons Limited, an indirect wholly-owned subsidiary of the Company.

4. The building falls within an area zoned for "Residential (Group A) 11" on Tuen Mun Outline Zoning Plan No. S/TM/27 dated September 2010.

| | Property | Description | Particular of occupancy | Capital value in existing state as at 31 March 2011 *HK$* |
|---|---|---|---|---|
| 5. | 1st Floor (together with adjacent flat roof) & 2nd Floor, Victory Court, No. 185 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong | The property comprises the 1st and 2nd floor of a 23-storey composite building which was completed in about 1980.<br><br>The property extends to an approximate total saleable area of 10,866 square feet (1,009.48 square metres) and a flat roof area of about 231 square feet (21.46 square metres). | The property is leased to the Group from an independent third party for a term of 6 years at a monthly rent of HK$380,000, HK$420,000, HK$430,000 and HK$440,000 for the periods commencing from 3 May 2010 to 2 May 2013, 3 May 2013 to 2 May 2014, 3 May 2014 to 2 May 2015 and 3 May 2015 to 2 May 2016 respectively (exclusive of rates and management fees).<br><br>We have been informed that as at the date of valuation, the property was occupied by the Group as a Chinese restaurant and trading under the name of "Red Seasons Aroma Restaurant (季季紅風味酒家)". | No commercial value |

*Notes:*

1. Pursuant to a stamped tenancy agreement made between Hip Shing Hong (Agency) Limited, the authorized agent for Handsome Construction & Investment Company Limited and Red Seasons Catering Limited dated 10 May 2010, the property is leased to the Group for a term of 6 years at a monthly rent of HK$380,000, HK$420,000, HK$430,000, and HK$440,000 for the periods commencing from 3 May 2010 to 2 May 2013, 3 May 2013 to 2 May 2014, 3 May 2014 to 2 May 2015 and 3 May 2015 to 2 May 2016 respectively (exclusive of rates and management fees).

2. The Landlord of the property, Hip Shing Hong (Agency) Limited, the authorized agent for Handsome Construction & Investment Company Limited, is an independent third party which is not connected with and is independent of, any directors, chief executives or the substantial shareholders of the Company or any of its subsidiaries and/or their respective associates.

3. The Tenant of the property is Red Seasons Catering Limited, an indirect wholly-owned subsidiary of the Company.

4. The building falls within an area zoned for " Residential (Group A) " on Tsuen Wan Outline Zoning Plan No. S/TW/27 dated December 2010.

| | Property | Description | Particular of occupancy | Capital value in existing state as at 31 March 2011 *HK$* |
|---|---|---|---|---|
| 6. | Portion of Shop No. 33 on Level 1, whole of Shop No. 33 on Level 2 and Car Parking Space No. 81 on Level 2 of the podium, Garden Rivera, Nos. 20-30 Tai Chung Kiu Road, Shatin, New Territories, Hong Kong | The property comprises the major portion of a commercial unit on Level 1, a commercial unit thereabove on Level 2 and a carparking space on Level 2 of a 3-storey commercial and carparking podium with 3 blocks of 33-storey residential building erected thereon. The subject development was completed in about 1984.<br><br>The commercial units of the property extends to an approximate total saleable area of 9,466 square feet (879.41 square metres). | The property is leased to the Group from a connecting person for a term of 5 years commencing from 1 January 2010 to 31 December 2014 at a monthly rent of HK$250,000 (exclusive of rates, government rent and management fees).<br><br>We have been informed that as at the date of valuation, the property was occupied by the Group as a Chinese restaurant and carparking space for its staffs and trading under the name of “Red Seasons Aroma Restaurant (季季紅風味酒家)”. | No commercial value |

*Notes:*

1. Pursuant to a stamped tenancy agreement made between U Investments Limited and Red Seasons Corporation Limited dated 1 January 2010, the property is leased to the Group for a term of 5 years commencing from 1 January 2010 to 31 December 2014 at a monthly rent of HK$250,000 (exclusive of rates, government rent and management fees).

2. The Landlord of the property, U Investments Limited is an associate of the controlling shareholders of the Company, and is a connected person of the Company under the GEM Listing Rules.

3. The Tenant of the property is Red Seasons Corporation Limited, an indirect wholly-owned subsidiary of the Company.

4. The building falls within an area zoned for “Residential (Group A)” on Sha Tin Outline Zoning Plan No. S/ST/24 dated February 2011.

| | Property | Description | Particular of occupancy | Capital value in existing state as at 31 March 2011 *HK$* |
|---|---|---|---|---|
| 7. | Shop No. 46, Ground Floor, Ho Shun Tai Building, No. 10 Sai Ching Street, Yuen Long, New Territories, Hong Kong | The property comprises a commercial unit on ground floor of a 3-storey commercial and carparking podium with 2 blocks of 28-storey residential building erected thereon. The subject development was completed in about 1988.<br><br>The property extends to an approximate saleable area of 582 square feet (54.07 square metres). | The property is leased to the Group from 2 independent third parties for a term of 3 years commencing from 16 September 2010 to 15 September 2013 at a monthly rent of HK$16,000 with an option to renew a further 2 years at a monthly rent of HK$18,000 (inclusive of rates, government rent and management fees).<br><br>We have been informed that as at the date of valuation, the property was occupied by the Group for office purposes. | No commercial value |

*Notes:*

1. Pursuant to a stamped tenancy agreement made between Li Kwan Sing and Tsang Sau Yee and Gayety Limited dated 14 July 2010, the property is leased to the Group for a term of 3 years commencing from 16 September 2010 to 15 September 2013 at a monthly rent of HK$16,000 with an option to renew a further 2 years at a monthly rent of HK$18,000 (inclusive of rates, government rent and management fees).

2. The Landlord of the property, Li Kwan Sing and Tsang Sau Yee, are independent third parties which are not connected with and are independent of, any directors, chief executives or the substantial shareholders of the Company or any of its subsidiaries and/or their respective associates.

3. The Tenant of the property is Gayety Limited, an indirect wholly-owned subsidiary of the Company.

4. The building falls within an area zoned for "Residential (Group A)" on Yuen Long Outline Zoning Plan No. S/YL/19 dated March 2011.

| | Property | Description | Particular of occupancy | Capital value in existing state as at 31 March 2011 *HK$* |
|---|---|---|---|---|
| 8. | Lot Nos. 759RP & 764BRP in Demarcation District No. 130, Lam Tei, Tuen Mun, New Territories, Hong Kong | The property comprises 2 pieces of adjoined land with several single storey temporary buildings erected and containers deposited thereon. The buildings were completed in 1990s.<br><br>The property extends to an approximate total site area of 10,290 square feet (955.96 square metres). | The property is leased to the Group from an independent third party for a term of 23.5 months commencing from 15 July 2009 to 30 June 2011 at a monthly rent of HK$68,000 (inclusive of rates, government rent and management fees). The tenancy agreement will not be renewed upon expiry.<br><br>We have been informed that as at the date of valuation, the property was primarily occupied by the Group for storage purposes. | No commercial value |

*Notes:*

1. Pursuant to a stamped tenancy agreement made between Roosendall International Investment Limited and 季季紅風味酒家 (Red Seasons Aroma Restaurant) dated 16 June 2009, the property is leased to the Group for a term of 23.5 months commencing from 15 July 2009 to 30 June 2011 at a monthly rent of HK$68,000 (inclusive of rates, government rent and management fees). We have further been advised and confirmed by the Company's Hong Kong legal advisers that the tenant of the property under the tenancy agreement should be construed as Sencas Limited trading as 季季紅風味酒家 (Red Seasons Aroma Restaurant).

2. The Landlord of the property, Roosendall International Investment Limited, is an independent third party which is not connected with and is independent of, any directors, chief executives or the substantial shareholders of the Company or any of its subsidiaries and/or their respective associates.

3. The Tenant of the property is Sencas Limited trading as 季季紅風味酒家 (Red Seasons Aroma Restaurant). Sencas Limited is an indirect 60% owned subsidiary of the Company.

4. The building falls within an area zoned for "Comprehensive Development Area" on Lam Tei & Yick Yuen Outline Zoning Plan No. S/TM-LTYY/6 dated March 2006.

5. In accordance with the land search records obtained from the Hong Kong Land Registry, the current registered owner of the property is To Shan (or San) Yan Tso. We have further been informed by the Company that the Landlord had not obtained consent to lease or sublet of the property.

*Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.*

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 February 2011 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.

## 1. MEMORANDUM OF ASSOCIATION

**(a)** The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

**(b)** The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## 2. ARTICLES OF ASSOCIATION

The Articles were adopted on 25 June 2011. The following is a summary of certain provisions of the Articles:

### (a) Directors

#### *(i) Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(ii) Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

*(iii) Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(iv) Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

*(v) Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

*(vi) Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vii) Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

*(viii) Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

*(ix) Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

*(x) Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

**(b) Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(c) Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(e) Special resolution-majority required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

**(f) Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

**(g) Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

**(h) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

**(j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

**(k) Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

**(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

**(m) Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(o) Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(p) Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

**(q) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

**(s) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(t) Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

**(u) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

## 3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

### (a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

### (b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**(c) Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

**(f) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 8 March 2011.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

**(n) Winding up**

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

**(o) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(p) Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(q) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

## 4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

## A. FURTHER INFORMATION ABOUT THE COMPANY AND THE SUBSIDIARIES

### 1. Incorporation of the Company

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 10 February 2011.

The Company has been registered in Hong Kong under Part XI of the Companies Ordinance as a non-Hong Kong company and its principal place of business in Hong Kong is at Shop No. 46, Ground Floor, Ho Shun Tai Building, No. 10 Sai Ching Street, Yuen Long, New Territories, Hong Kong. In compliance with the requirements of the Companies Ordinance, Ms. Lau LY of Flat 2, 11/F, Block B, Spring Seaview Terrace, 33 Castle Peak Road, Tuen Mun, New Territories, Hong Kong and Mr. Wong Tin King, Richard of Room 1, 32/F, Block C, Beverly Hill, 6 Broadwood Road, Happy Valley, Hong Kong have been appointed as the authorised representatives of the Company for the acceptance of service of process and any notice required to be served on the Company in Hong Kong.

As the Company was incorporated in the Cayman Islands, it operates subject to the relevant laws and regulations of the Cayman Islands and its constitution which comprises the Memorandum and the Articles. A summary of certain relevant aspects of Companies Law and certain relevant parts of the Company's constitution is set out in Appendix IV to this prospectus.

### 2. Changes in share capital of the Company

#### *(a) Changes in share capital*

As at the date of incorporation of the Company on 10 February 2011, the authorised share capital of the Company was HK$380,000 divided into 38,000,000 Shares of HK$0.01 par value each. On the same date, one Share was subscribed, nil-paid, by a nominee company which was an Independent Third Party. On the same date, the said one nil-paid Share held by the nominee company was transferred to KMW. On 24 June 2011, the said one nil paid Share was fully paid up by KMW and such nil paid Share was credited as one fully paid Share of HK$0.01 par value.

On 25 June 2011, 37,999,999 Shares, credited as fully paid, were issued to KMW as referred to in paragraph 4 below.

On 25 June 2011, the authorised share capital of the Company was increased from HK$380,000 to HK$10,000,000 by the creation of 962,000,000 new Shares pursuant to a resolution passed by the sole Shareholder referred to in paragraph 3 below and subject to the conditions contained therein.

Immediately following the completion of the Placing and the Capitalisation Issue, the authorised share capital of the Company will be HK$10,000,000 divided into 1,000,000,000 Shares, of which 320,000,000 Shares will be in issue and fully paid or credited as fully paid, and 680,000,000 Shares will remain unissued. The Company does not have any present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

***(b) Founder shares***

The Company has no founder shares, management shares or deferred shares.

Save as disclosed in this paragraph and in paragraphs headed "Incorporation of the Company", "Resolutions in writing passed by the sole Shareholder on 25 June 2011" and "Corporate reorganisation" of this Appendix and in the section headed "History and Development" in this prospectus, there have been no alterations in the share capital of the Company since its incorporation.

**3. Resolutions in writing passed by the sole Shareholder on 25 June 2011**

By resolutions in writing passed by the sole Shareholder on 25 June 2011, among other things:

(a) the Company approved and adopted the Memorandum and Articles;

(b) the authorised share capital of the Company was increased from HK$380,000, divided into 38,000,000 Shares, to HK$10,000,000, divided into 1,000,000,000 Shares by the creation of additional 962,000,000 Shares, which rank *pari passu* in all respects with the Shares in issue as at the date of such resolutions;

(c) conditional on (i) the Listing Division granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; (ii) the Placing Price having been duly determined and the execution and delivery of the Underwriting Agreement on the date as specified in this prospectus; and (iii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including the waiver of any condition(s) by the Lead Manager (for itself and on behalf of the Underwriters) and not being terminated in accordance with the terms of such agreement (or any conditions as specified in this prospectus), in each case on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived before such dates and times) and in any event not later than the date falling 30 days after the date of this prospectus:

(i) the Placing was approved and the Directors were authorised to allot and issue the Placing Shares;

(ii) conditional on the share premium account of the Company being credited as a result of the Placing, the Directors were authorised to allot and issue a total of 202,000,000 Shares credited as fully paid at par to the holders of Shares whose names appear on the register of members of the Company at 4:00 p.m. on the date of such resolutions (or as they may direct) in proportion to their then existing respective shareholdings (save that no Shareholder shall be entitled to be allotted and issued any fraction of a Share) by way of capitalisation of the sum of HK$2,020,000 standing to the credit of the share premium account of the Company, and the Shares be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares;

(iii) a general unconditional mandate was given to the Directors to exercise all powers of the Company to allot, issue and deal with, otherwise than by way of rights issue or the exercise of the subscription rights granted under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries or any other person of Shares or rights to acquire Shares or an issue of Shares as scrip dividends pursuant to the Memorandum and Articles, Shares with an aggregate nominal amount of not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue until whichever is the earliest of the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law of the Cayman Islands to be held, or the revocation, variation or renewal of such general mandate by an ordinary resolution of the shareholders of the Company in general meeting;

(iv) a general unconditional mandate was given to the Directors to exercise all powers of the Company to repurchase Shares on GEM or any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, subject to and in accordance with all other applicable laws and/or the requirements of the GEM Listing Rules or of another stock exchange as amended from time to time in this regard, such number of Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue; until whichever is the earliest of the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law of the Cayman Islands to be held, or the revocation, variation or renewal of such general mandate by an ordinary resolution of the shareholders of the Company in general meeting;

(v) the general mandate mentioned in sub-paragraph (iii) above was extended by the addition to the aggregate nominal amount of shares in the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the number of shares in the share capital of the Company that are repurchased by the Company under the general mandate mentioned in sub-paragraph (iv) above, provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following the completion of the Placing and the Capitalisation Issue; and

(vi) the form and substance of the service agreement made between each of the executive Directors and the Company, and the form and substance of the appointment letter made between each of the independent non-executive Directors with the Company were approved and any Director (other than the Director to which the relevant service agreement/appointment letter relates) was authorised to execute the service agreements/appointment letters for and on behalf of the Company.

**4. Corporate reorganisation**

The companies comprising the Group underwent the Reorganisation to rationalise the Group's structure in preparation for the Placing and the Capitalisation Issue, which involved the following steps:

***(1) Termination of the Deed of Trust***

On 3 June 2011, Ms. Lau LY and Mr. Sin executed a deed for the release and termination of the Deed of Trust and an instrument of transfer for the transfer back of the legal title of one share of Red Seasons from Mr. Sin to Ms. Lau LY at nil consideration, pursuant to which Ms. Lau LY became the legal and beneficial owner of one share of Red Seasons, representing 50% of the entire issued share capital of Red Seasons.

***(2) Acquisition of Tin Ho, Jubilant, Gayety, Sencas, Red Seasons, RS Corporation and RS Catering by GR Holdings***

On 3 June 2011, GR Holdings, as the purchaser, and Mr. Wong KM and Ms. Lau LY, as the vendors, executed a share acquisition agreement and relevant instruments of transfer and bought and sold notes for acquiring all the shares owned by Mr. Wong KM and Ms. Lau LY in each of Tin Ho, Jubilant, Gayety, Sencas, Red Seasons, RS Corporation and RS Catering by GR Holdings (collectively the "**Acquisitions**"). In consideration of and in exchange for which, GR Holdings allotted and issued a total of 49 shares of GR Holdings, credited as fully paid, to Mr. Wong KM and a total of 49 shares of GR Holdings, credited as fully paid, to Ms. Lau LY.

Upon the completion of the said share acquisition agreement, which took place on its date of execution, the entire issued share capital of GR Holdings was owned as to 50% (represented by 50 shares of GR Holdings) by Mr. Wong KM and 50% (represented by 50 shares of GR Holdings) by Mr. Lau LY.

Upon the completion under the said share acquisition agreement, which took place on its date of execution and the stamping of the instruments of transfer and bought and sold notes in respect of the Acquisitions, which took place on 17 June 2011, (a) GR Holdings became the sole legal and beneficial owner of the entire issued share capital of each of Jubilant, Gayety, Red Seasons, RS Corporation and RS Catering, and (b) each of Tin Ho and Sencas was owned as to 60% (represented by 480 shares of Tin Ho and 6,000 shares of Sencas respectively) by GR Holdings.

***(3) Incorporation of the Company***

On 10 February 2011, the Company was incorporated in the Cayman Islands with limited liability and an authorised share capital of HK$380,000 divided into 38,000,000 Shares of HK$0.01 par value each.

At the time of incorporation, one Share was subscribed by a nominee company which was an Independent Third Party as nil paid Share.

On 10 February 2011, the said one nil paid Share held by the nominee company was transferred to KMW. Following such transfer, the entire issued share capital (represented by one nil paid Share) of the Company was owned by KMW.

***(4) Acquisition of GR Holdings by the Company***

On 25 June 2011, the Company as the purchaser, Mr. Wong KM and Ms. Lau LY as the vendors, and KMW executed a share acquisition agreement and relevant instruments of transfer for acquiring all the shares owned by Mr. Wong KM and Ms. Lau LY in GR Holdings by the Company. In consideration of and in exchange for which, (a) the Company procured KMW to allot and issue one share of US$1.00 par value of KMW, credited as fully paid, to Mr. Wong KM and one share of US$1.00 par value of KMW, credited as fully paid, to Ms. Lau LY; and (b) the Company allotted and issued 37,999,999 Shares, credited as fully paid, to KMW.

Upon the completion under the said share acquisition agreement, which took place on its date of execution, (a) the entire issued share capital of KMW remained owned as to 50% (represented by two shares of KMW) by Mr. Wong KM and 50% (represented by two shares of KMW) by Ms. Lau LY; (b) the entire issued share capital (represented by 38,000,000 Shares) of the Company remained wholly-owned by KMW; and (c) the Company became the sole legal and beneficial owner of the entire issued share capital (represented by 100 shares of GR Holdings) of GR Holdings.

**5. Changes in share capital of the subsidiaries of the Company**

The subsidiaries of the Company are listed in the Accountant's Report set out in Appendix I to this prospectus.

Save as disclosed in the paragraph headed "Corporate reorganisation" of this Appendix and in the section headed "History and Development" in this prospectus, there have been no alterations in the share capital of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

**6. Repurchase by the Company of its own securities**

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Shares.

***(a) Relevant Legal and Regulatory Requirements***

The GEM Listing Rules permit Shareholders to grant the Directors a general mandate to repurchase the Shares that are listed on GEM or any other stock exchange on which the securities of the Company may be listed.

***(b) Shareholders' approval***

All proposed repurchases of securities (which must be fully paid up in case of shares) must be approved in advance by an ordinary resolution of the Shareholders, either by way of general mandate or by specific approval of a particular transaction.

On 25 June 2011, the Directors were granted a general unconditional mandate ("**Repurchase Mandate**") to repurchase up to 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue on GEM or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose. This general mandate will expire at the earliest of the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law of the Cayman Islands to be held, or the revocation, variation or renewal of such general mandate by an ordinary resolution of the Shareholders in a general meeting.

***(c) Source of funds***

All repurchases must be funded out of funds legally available for such purpose in accordance with the Memorandum and Articles of Association and the applicable laws and regulations of the Cayman Islands and any other laws and regulations applicable to the Company. The Company may not repurchase its own securities on the Stock Exchange for consideration other than cash or for the settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

***(d) Trading Restrictions***

The Company may repurchase up to 10% of the issued share capital immediately after completion of the Placing and the Capitalisation Issue.

***(e) Connected persons***

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "connected person", that is, a director, chief executive or substantial shareholder of such company or any of its subsidiaries or any of their associates (as defined in the GEM Listing Rules) and a connected person shall not knowingly sell his securities to the Company on the Stock Exchange.

***(f) Reasons for repurchases***

The Directors believe that it is in the best interests of the Company and its Shareholders as a whole for the Directors to have general authority from its Shareholders to enable the Company to repurchase Shares on GEM or any other stock exchange on which the securities of the Company may be listed. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit the Company and its Shareholders as a whole.

***(g) General***

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the GEM Listing Rules) has a present intention to sell any Shares to the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Articles, the GEM Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of the Company exercising its power to repurchase securities pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (within the meaning of the Takeovers Code) could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences of any repurchases pursuant to the Repurchase Mandate which would arise under Rule 26 of the Takeovers Code.

No connected person (as defined in the GEM Listing Rules) of the Company has notified the Group that he has a present intention to sell any Shares to the Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

### 7. Registration under Part XI of the Companies Ordinance

The Company has established its head office and principal place of business in Hong Kong for the purpose of registration under Part XI of the Companies Ordinance at Shop No. 46, Ground Floor, Ho Shun Tai Building, No. 10 Sai Ching Street, Yuen Long, New Territories, Hong Kong. The Company has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance. Ms. Lau LY of Flat 2, 11/F, Block B, Spring Seaview Terrace, 33 Castle Peak Road, Tuen Mun, New Territories, Hong Kong and Mr. Wong Tin King, Richard of Room 1, 32/F, Block C, Beverly Hill, 6 Broadwood Road, Happy Valley, Hong Kong have been appointed as the authorised representatives of the Company for the acceptance of service of process and any notice required to be served on the Company in Hong Kong.

## B. FURTHER INFORMATION ABOUT THE BUSINESS OF THE COMPANY

### 8. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business of the Group) were entered into by the Company or any of its subsidiaries within the two years immediately preceding the date of this prospectus and are or may be material:

(a) an agreement for the sale and purchase of shares dated 3 June 2011 and made between Mr. Wong KM and Ms. Lau LY, as the vendors, and GR Holdings, as the purchaser, in respect of the acquisition of all the shares owned by Mr. Wong KM and Ms. Lau LY in each of Tin Ho, Jubilant, Gayety, Sencas, Red Seasons, RS Corporation and RS Catering in consideration of the allotment and issue of a total of 49 shares of US$1 each in GR Holdings, credited as fully paid, to Mr. Wong KM and 49 shares of US$1 each in GR Holdings, credited as fully paid, to Ms. Lau LY;

(b) an agreement for the sale and purchase of shares dated 25 June 2011 and made between Mr. Wong KM and Ms. Lau LY, as the vendors, the Company, as the purchaser, and KMW in respect of the acquisition of all the shares owned by Mr. Wong KM and Ms. Lau LY in GR Holdings in consideration of (a) the allotment and issue of one share of US$1 in KMW, credited as fully paid, to Mr. Wong KM and one share of US$1 in KMW, credited as fully paid, to Ms. Lau LY; and (b) the allotment and issue of 37,999,999 Shares, credited as fully paid, to KMW;

(c) the Deed of Non-competition;

(d) a deed of indemnity dated 25 June 2011 and entered into by Mr. Wong KM, Ms. Lau LY and the Company pursuant to which Mr. Wong KM and Ms. Lau LY have agreed to give certain indemnities in favour of the Company (for itself and as trustee for its subsidiaries), particulars of which are set out in the paragraph headed "Estate duty, tax and other indemnity" of this Appendix; and

(e) the Underwriting Agreement.

## 9. Intellectual property rights of the Company

### *(a) Trademarks*

#### *(i) Registered trademark owned by the Group*

As at the Latest Practicable Date, the Group was the registered owner of the following trademarks:

| Trademark | Registration number | Class | Validity period | Registrant | Place of registration |
|---|---|---|---|---|---|
| 季季紅 | 301564056 | 43 | 16 March 2010 – 15 March 2020 | GR Holdings | Hong Kong |
| 喜尚 | 301778798 | 29, 30, 43 | 2 December 2010 – 1 December 2020 | GR Holdings | Hong Kong |
| 喜尚嘉喜 | 301773900 | 29, 30, 43 | 26 November 2010 – 25 November 2020 | GR Holdings | Hong Kong |
| 紅爵 | 301772604 | 29, 30, 43 | 25 November 2010 – 24 November 2020 | GR Holdings | Hong Kong |

*(ii) Application for registration of trademarks*

As at the Latest Practicable Date, the Group had applied for registration of the following trademarks, the registration of each of which has not yet been granted:

| Trademark | Application number | Class | Date of application | Applicant | Place of application |
|---|---|---|---|---|---|
| 季季紅 | 301780083 | 29, 30 | 3 December 2010 | GR Holdings | Hong Kong |
|  | 301778815 | 29, 30, 43 | 2 December 2010 | GR Holdings | Hong Kong |
|  | 301776349 | 43 | 30 November 2010 | GR Holdings | Hong Kong |
| 蝦禾米乳香豬 | 301845432 | 29, 43 | 1 March 2011 | GR Holdings | Hong Kong |
| 有米豬 | 301845441 | 29, 43 | 1 March 2011 | GR Holdings | Hong Kong |
| 又一餐 | 301872793 | 29, 30, 43 | 29 March 2011 | GR Holdings | Hong Kong |

***(b) Domain name***

As at the Latest Practicable Date, the Group had registered the following domain names:

| Domain name | Registrant | Date of registration | Expiry date |
|---|---|---|---|
| **www.gayety.com.hk** | Gayety | 9 March 2010 | 9 March 2012 |
| **www.redseasons.com.hk** | RS Corporation | 24 January 2010 | 2 February 2012 |

Save as aforesaid, there are no other trademarks, patents or other intellectual or industrial property rights which are material in relation to the Group's business.

**10. Connected transactions and related party transactions**

Save as disclosed in this prospectus and in note 27 to the Accountant's Report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, the Company did not engage in any other material connected transactions or related party transactions.

## C. FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS

### 11. Directors

#### (a) *Disclosure of interests of Directors*

(i) Mr. Wong KM and Ms. Lau LY are interested in the Reorganisation.

(ii) Save as disclosed in this prospectus, none of the Directors or their respective associates was engaged in any dealings with the Group during the two years preceding the date of this prospectus.

#### (b) *Particulars of Directors' service agreements*

*(i) Executive Directors*

Each of the executive Directors has entered into a service agreement with the Company pursuant to which he or she has agreed to act as an executive Director for a fixed term of one year with effect from the Listing Date and will not receive any remuneration for holding his or her office as an executive Director. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless either party has given at least one month's written notice of non-renewal before the expiry of the then existing term.

*(ii) Independent non-executive Directors*

Each of the independent non-executive Directors has been appointed for a fixed term of one year commencing from the Listing Date and is entitled to an annual director's fee of HK$60,000. Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding his or her office as an independent non-executive Director.

Save as disclosed above, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

#### (c) *Remuneration of Directors*

(i) No emoluments has been paid by the Group to the Directors in respect of the years ended 31 December 2009 and 2010.

(ii) Under the arrangements currently in force, the aggregate emoluments payable by the Group to the Directors (including the independent non-executive Directors) for the year ending 31 December 2011, are expected to be approximately HK$90,000.

(iii) None of the Directors or any past directors of any members of the Group has been paid any sum of money for each of the two years ended 31 December 2010 as (i) an inducement to join or upon joining the Company; or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any members of the Group.

(iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the two years ended 31 December 2010.

***(d) Interests and short positions of the Directors in the Shares, underlying shares or debentures of the Company and associated corporations following the Placing and the Capitalisation Issue***

Immediately following completion of the Placing and the Capitalisation Issue, the interests or short positions of the Directors in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to notify the Company and the Stock Exchange pursuant to Rules 5.46 to Rule 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange, will be as follows:

**Long Positions in the Company**

| **Name of Director** | **Capacity/ nature of interest** | **Total number of ordinary Shares** | **Approximate percentage of interest** |
|---|---|---|---|
| Mr. Wong KM *(Note 1)* | Interest in controlled corporation | 240,000,000 | 75% |
| Ms. Lau LY *(Note 2)* | Interest in controlled corporation | 240,000,000 | 75% |

*Notes:*

(1) Mr. Wong KM is deemed to be interested in all the Shares held by KMW by virtue of the SFO.

(2) Ms. Lau LY is deemed to be interested in all the Shares held by KMW by virtue of the SFO.

## 12. Interest of substantial shareholders discloseable under the SFO

So far as the Directors are aware, immediately following the completion of the Placing and the Capitalisation Issue, other than a Director or chief executive of the Company whose interests or short positions are disclosed under the sub-paragraph headed "Interests and short positions of the Directors in the Shares, underlying shares or debentures of the Company and associated corporations following the Placing and the Capitalisation Issue" in this Appendix, the following person will have an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and who are expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

| Name of Shareholder | Capacity/ nature of interest | Total number of ordinary Shares | Approximate percentage of interest |
|---|---|---|---|
| KMW *(Note)* | Beneficial owner | 240,000,000 | 75% |

*Note:*

The entire issued share capital of KMW is owned as to 50% by Mr. Wong KM and 50% by Ms. Lau LY.

## 13. Disclaimers

Save as disclosed in this prospectus:

(a) the Directors are not aware of any person (not being a Director or chief executive of the Company) who will, immediately after completion of the Placing and the Capitalisation Issue, have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group;

(b) none of the Directors has any interest or short position in any of the shares, underlying shares or debentures of the Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange, in each case once the Shares are listed;

(c) none of the Directors nor any of the parties listed in the sub-paragraph headed "Qualifications of experts" of the paragraph headed "Other information" in this Appendix has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to the Company or any of any other member of the Group, or are proposed to be acquired or disposed of by or leased to the Company or any other member of the Group nor will any Director apply for the Placing Shares either in his own name or in the name of a nominee;

(d) none of the Directors nor any of the parties listed in the sub-paragraph headed "Qualifications of experts" of the paragraph headed "Other information" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to business of the Group;

(e) save in connection with the Underwriting Agreement, none of the parties listed in the sub-paragraph headed "Qualifications of experts" of the paragraph headed "Other information" in this Appendix:

(i) is interested legally or beneficially in any securities of any member of the Group; or

(ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

## D. OTHER INFORMATION

### 14. Estate duty, tax and other indemnity

Mr. Wong KM and Ms. Lau LY (collectively the "**Indemnifiers**") have entered into a deed of indemnity (being a material contract referred to in paragraph 8(d) of this Appendix) with and in favour of the Company (for itself and as trustee for each of its present subsidiaries) to provide indemnities, subject to the Placing becoming unconditional, on a joint and several basis in favour of the Group against (a) any costs, expenses, claims, liabilities, penalties, losses or damages incurred or suffered by the Group arising from or in connection with; (i) any failure to obtain mortgagee's consent in respect of the office in Yuen Long as described in the sub-paragraph headed "Property" in the section headed "Business" in this prospectus; (ii) the Group's restaurants operating without a general restaurant licence, water pollution 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 in the sub-paragraph headed "Compliance" of the paragraph headed "Licences and approvals" in the section headed "Business" in this prospectus prior to Listing; and (iii) any non-compliance with the Companies Ordinance by any member of the Group prior to Listing; and (b) any taxation which might be payable by any member of the Group on or before the date on which the Placing becomes unconditional. The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands.

The Indemnifiers shall be under no liability under the deed of indemnity in respect of any taxation:

(a) to the extent that provision has been made for such taxation in the audited accounts of the Company or any of its subsidiaries up to 31 December 2010; or

(b) falling on any member of the Group in respect of their accounting period commencing on or after 1 January 2011 unless liability for such taxation would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of the Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) with the prior written consent or agreement of the Indemnifiers other than any such act, omission or transaction:

  (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before 31 December 2010; or

  (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 31 December 2010 or pursuant to any statement of intention made in this prospectus; or

(c) to the extent that such taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Inland Revenue Department of Hong Kong or any other relevant authority coming into force after the date on which the Placing becomes unconditional or to the extent such taxation claim arises or is increased by an increase in rates of taxation after such date of the deed of indemnity with retrospective effect; or

(d) to the extent of any provisions or reserve made for taxation in the audited accounts of any member of the Group up to 31 December 2010 which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied pursuant to the deed of indemnity to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

**15. Litigation**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Company, that would have a material adverse effect on the Company's results of operations or financial condition of the Company.

**16. Preliminary expenses**

The estimated preliminary expenses relating to the incorporation of the Company are estimated to be approximately HK$85,800 and are payable by the Company.

**17. Promoters**

The Company has no promoter.

**18. Agency fees or commissions received**

The Underwriters will receive a commission of 2.5% of the aggregate Placing Price in respect of all the Placing Shares. The Underwriters will pay any sub-underwriting commissions and selling concessions out of their commission. The Sponsor will also receive a documentation fee. Such commissions, selling concessions, documentation fees and expenses, together with the Stock Exchange listing fees, legal and other professional fees, and printing and other expenses relating to the Placing, which are estimated to amount in aggregate to approximately HK$18 million, will be payable by the Company.

**19. Sponsor**

The Sponsor has made an application on behalf of the Company to the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

**20. Qualifications of experts**

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

| **Name** | **Qualification** |
|---|---|
| Quam Capital Limited | A corporation licensed by the SFC to carry out type 6 (advising on corporate finance) regulated activities under the SFO |
| PricewaterhouseCoopers | Certified Public Accountants |
| ONC Lawyers | Hong Kong legal advisers to the Company |
| Conyers Dill & Pearman | Cayman Islands legal advisers |
| Ample Appraisal Limited | Professional property valuers |

**21. Consents of experts**

Each of the Sponsor, PricewaterhouseCoopers, ONC Lawyers, Conyers Dill & Pearman and Ample Appraisal Limited has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and the references to its name or summaries of opinions included herein in the form and context in which they respectively appear.

None of the experts named in the sub-paragraph headed "Qualifications of experts" of the paragraph headed "Other information" in this Appendix has any shareholding interests in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group save for the Lead Manager, which is also one of the Underwriters and may be required to perform its underwriting obligation in respect of the Placing Shares.

### 22. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

### 23. Taxation of holders of Shares

Dealings in the Shares registered in the Company's register of members will be subject to Hong Kong stamp duty. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred on each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the Shares. In addition, a fixed duty of HK$5 is charged on each instrument of transfer (if required).

Under current Cayman Islands law, transfers and other dispositions of the Shares are exempt from Cayman Islands stamp duty.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

Intending holders of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. None of the Company, the Directors or the other parties involved in the Placing accepts responsibility for any tax effect on, or liabilities of, holders of the Shares resulting from their subscription for, purchase, holding or disposal of or dealing in the Shares.

### 24. No material adverse change

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2010 (being the date to which the latest audited combined financial statements of the Group were made up).

**25. Miscellaneous**

Save as disclosed in this prospectus:

(a) within the two years preceding the date of this prospectus:

(i) no share or loan capital of the Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries; and

(iii) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in the Company or any of its subsidiaries; and

(b) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

## DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

(a) written consents referred to in the sub-paragraph headed "Consents of experts" of the paragraph headed "Other information" in Appendix V to this prospectus; and

(b) copies of the material contracts referred to in the sub-paragraph headed "Summary of material contracts" of the paragraph headed "Further information about the business of the Company" in Appendix V to this prospectus.

## DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of ONC Lawyers, at 15th Floor, The Bank of East Asia Building, 10 Des Voeux Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum and the Articles;

(b) the Accountant's Report on the historical financial information of the Group for the years ended 31 December 2009 and 2010, the text of which is set out in Appendix I to this prospectus;

(c) the audited combined financial statements of Company and its subsidiaries for the years ended 31 December 2009 and 2010;

(d) the report from the reporting accountant in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;

(e) the letter, summary of values and valuation certificate relating to the property interests of the Group prepared by Ample Appraisal Limited, the texts of which are set out in Appendix III to this prospectus;

(f) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of the Companies Law referred to in Appendix IV to this prospectus;

(g) the legal opinion issued by ONC Lawyers, the Hong Kong legal advisers to the Company, in respect of certain statements referred to in this prospectus;

(h) the material contracts referred to in the sub-paragraph headed "Summary of material contracts" of the paragraph headed "Further information about the business of the Company" in Appendix V to this prospectus;

(i) the service agreements of the Directors referred to in the sub-paragraph headed "Particulars of Directors' service agreements" of the paragraph headed "Further information about Directors and Shareholders" in Appendix V to this prospectus;

(j) the written consents referred to in the sub-paragraph headed "Consents of experts" of the paragraph headed "Other information" in Appendix V to this prospectus; and

(k) the Companies Law.