



喜尚控股有限公司
Gayety Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8179

2013
Interim Report

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

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

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

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This report, for which the directors (the “Directors”) of Gayety Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this report misleading.

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Wong Kwan Mo (*Chairman*)
Ms. Lau Lan Ying (*Chief executive officer*)

Independent Non-Executive Directors

Mr. Li Fu Yeung
Ms. Chiu Man Yee
Mr. Ho Chun Fai

Compliance Officer

Ms. Lau Lan Ying

Authorised Representatives

Ms. Lau Lan Ying
Mr. Wong Tin King, Richard, *CPA, ACA*

Company Secretary

Mr. Wong Tin King, Richard, *CPA, ACA*

Audit Committee Members

Mr. Li Fu Yeung (*Chairman*)
Ms. Chiu Man Yee
Mr. Ho Chun Fai

Remuneration Committee Members

Ms. Chiu Man Yee (*Chairman*)
Mr. Li Fu Yeung
Mr. Ho Chun Fai

Nomination Committee Members

Mr. Li Fu Yeung (*Chairman*)
Ms. Chiu Man Yee
Mr. Ho Chun Fai

Legal Advisers to the Company

Pinsent Masons

Auditors

SHINEWING (HK) CPA Limited
Certified Public Accountants

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited
DBS Bank (Hong Kong) Limited

Registered Office

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Head Office, Headquarters and Principal Place of Business in Hong Kong

Shop No. 46, Ground Floor
Ho Shun Tai Building
No. 10 Sai Ching Street
Yuen Long
New Territories
Hong Kong

Hong Kong Share Registrars and Transfer Office

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

Company Website

www.gayety.com.hk

GEM Stock Code

8179

HIGHLIGHTS

- The Group's turnover for the six months ended 30 June 2013 increased by approximately 7% to approximately HK\$182,932,000 (2012: HK\$170,409,000).
- Profit attributable to the owners of the Company for the six months ended 30 June 2013 increased by approximately 10% to approximately HK\$8,068,000 (2012: HK\$7,362,000).
- Basic earnings per share for the six months ended 30 June 2013 were approximately HK\$0.25 cents (2012: HK\$0.23 cents).

The board of Directors (the “Board”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months and six months ended 30 June 2013 (the “Interim Financial Statements”), together with the unaudited comparative figures for the corresponding period in 2012, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months and six months ended 30 June 2013

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Turnover	7	85,237	86,881	182,932	170,409
Other income	7	215	158	376	297
Cost of inventories consumed		(26,458)	(29,835)	(58,152)	(60,152)
Employee benefits expenses	8	(26,540)	(25,930)	(58,379)	(53,311)
Depreciation		(4,145)	(3,603)	(8,200)	(7,132)
Operating lease rentals and related expenses		(10,345)	(9,128)	(20,294)	(17,035)
Utilities expenses		(6,636)	(5,900)	(12,924)	(11,457)
Other operating expenses		(5,589)	(6,424)	(14,173)	(11,361)
Finance costs	9	(63)	(62)	(125)	(118)
Profit before tax	10	5,676	6,157	11,061	10,140
Income tax expenses	11	(1,160)	(1,773)	(2,544)	(2,430)
Profit and total comprehensive income for the period		4,516	4,384	8,517	7,710
Attributable to:					
Owners of the Company		4,210	3,936	8,068	7,362
Non-controlling interests		306	448	449	348
		4,516	4,384	8,517	7,710
Earnings per share					
– Basic and diluted (HK cents)	12	0.13	0.12	0.25	0.23

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2013

	Notes	As at 30 June 2013 HK\$'000 (Unaudited)	As at 31 December 2012 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	14	61,157	60,226
Rental deposits		11,665	8,128
Prepayment for acquisition of property, plant and equipment		648	380
Loan receivable from a substantial shareholder	21	9,900	9,900
Deferred tax assets		845	845
		84,215	79,479
Current assets			
Inventories		7,085	7,003
Trade receivables	15	2,262	1,655
Prepayments, deposits and other receivables		11,885	12,384
Amount due from a substantial shareholder	21	–	568
Pledged bank deposit		1,500	1,500
Bank balances and cash		56,663	61,088
		79,395	84,198
Current liabilities			
Trade payables	16	8,752	13,736
Other payables, accruals and deposits received		21,847	28,664
Provision for reinstatement costs		518	1,106
Income tax payable		4,878	2,430
Bank borrowing, secured	17	2,526	2,653
		38,521	48,589
Net current assets		40,874	35,609
Total assets less current liabilities		125,089	115,088

	As at 30 June 2013 HK\$'000 (Unaudited)	As at 31 December 2012 HK\$'000 (Audited)
Non-current liabilities		
Provision for reinstatement costs	2,662	1,994
Deferred tax liabilities	32	32
	2,694	2,026
	122,395	113,062
Capital and reserves		
Share capital	3,200	3,200
Reserves	116,220	107,005
Equity attributable to owners of the Company	119,420	110,205
Non-controlling interests	2,975	2,857
	122,395	113,062

Note

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2013

	Attributable to owners of the Company							Non-controlling interests	Total
	Share capital	Share premium	Capital reserve	Other reserve	Retained earnings	Total	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Balance at 1 January 2013	3,200	65,421	106	-	41,478	110,205	2,857	113,062	
Profit and total comprehensive income for the period	-	-	-	-	8,068	8,068	449	8,517	
Transactions with non-controlling interest	-	-	-	1,147	-	1,147	(331)	816	
Balance at 30 June 2013	3,200	65,421	106	1,147	49,546	119,420	2,975	122,395	
Balance at 1 January 2012	3,200	65,421	106	-	18,085	86,812	2,009	88,821	
Profit and total comprehensive income for the period	-	-	-	-	7,362	7,362	348	7,710	
Dividends (Note 13)	-	-	-	-	-	-	(200)	(200)	
Balance at 30 June 2012	3,200	65,421	106	-	25,447	94,174	2,157	96,331	

Notes:

- (i) Capital reserve represents the difference between the aggregate amount of issued and fully paid share capital of the subsidiaries acquired by the Company and the nominal amount of the shares issued by the Company in exchange for the entire equity interests in the subsidiaries as part of the group reorganisation.
- (ii) Other reserve represents the transactions with the non-controlling interests.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six months ended 30 June 2013

	For the six months ended 30 June	
	2013 <i>HK\$'000</i> (Unaudited)	2012 <i>HK\$'000</i> (Unaudited)
Net cash flows generated from operating activities	3,420	8,487
Net cash used in investing activities	(7,718)	(12,128)
Net cash used in financing activities	(127)	(10,215)
Net decrease in cash and cash equivalents	(4,425)	(13,856)
Cash and cash equivalents at beginning of period	61,088	47,181
Cash and cash equivalents at end of period, represented by bank balances and cash	56,663	33,325

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2013

Notes:

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 shares of the Company were listed on the GEM of The Stock Exchange since 8 July 2011. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is Shop 46, G/F., Ho Shun Tai Building, No. 10 Sai Ching Street, Yuen Long, New Territories. At the end of the reporting period and the date of the Interim Financial Statements, the Company's immediate and ultimate holding company is KMW Investments Limited, a company incorporated in the British Virgin Islands.

The Company's principal activity during the period was investment holding. The Group's principal activity during the period was the operation of a chain of Chinese restaurants in Hong Kong.

2. BASIS OF PREPARATION

The Interim Financial Statements have been prepared in accordance with the accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange (the "GEM Rules").

The accounting policies and methods of computation used in the preparation of the Interim Financial Statements are consistent with those adopted in the annual report for the year ended 31 December 2012, except for the adoption of the new and revised HKFRSs. The Interim Financial Statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual report for the year ended 31 December 2012.

The Interim Financial Statements have been prepared on the historical cost basis. The Interim Financial Statements are presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Group.

3. APPLICATION OF NEW AND REVISED HKFRSs

In the current period, the Group has adopted the following new and revised HKFRSs, which are effective for the Group's accounting period beginning on or after 1 January 2013.

Amendments to HKFRS 1	Government Loan
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

The adoption of the new and revised HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in these Interim Financial Statements:

Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ²
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities ¹
HKFRS 9	Financial Instruments ²
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ¹

¹ Effective for annual periods beginning on or after 1 January 2014.

² Effective for annual periods beginning on or after 1 January 2015.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application.

4. ESTIMATES

The preparation of Interim Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these Interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual report for the year ended 31 December 2012.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including interest rate 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.

The Interim Financial Statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the the annual report for the year ended 31 December 2012.

There have been no changes in any risk management policies.

5.2 Liquidity risk

The Group's remaining contractual maturity for its non-derivative financial liabilities, based on the agreed repayment terms, as at 31 December 2012 and 30 June 2013 is repayable on demand or within one year.

As at 30 June 2013, bank borrowing of HK\$2,526,000 (31 December 2012: HK\$2,653,000) represented the secured mortgage loan. Based on the facility agreement, the mortgage loan is being repaid by 120 monthly instalments commencing from January 2012. The facility agreement contains a repayment on demand clause pursuant to which the bank can at its discretion demand repayment of the entire outstanding balance from the Group in the absence of any defaults.

The Directors do not believe that it is probable that the bank will exercise its discretionary right to demand immediate repayment, after taking into account the Group's financial position.

5.3 Fair value estimation

The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider the carrying amount of the interest-bearing non-current loan receivable from a substantial shareholder approximates its fair value as the interest is determined with reference to market interest rate.

The Directors consider that the carrying amounts of financial assets and financial liabilities records at amortised cost in the Interim Financial Statements approximate their fair values due to their short-term maturities.

6. SEGMENT INFORMATION

The Group is engaged in a single segment, the operation of a chain of Chinese restaurants in Hong Kong. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board as they collectively make strategic decision in allocating the Group's resources and assessing performance.

No geographical information is presented as all revenue from external customers of the Group are derived in and all non-current assets of the Group are located in Hong Kong.

7. TURNOVER AND OTHER INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Turnover				
Chinese restaurant operations	85,237	86,881	182,932	170,409
Other income				
Loan interest income from a substantial shareholder (Note 21)	149	149	295	269
Sundry income	57	–	60	2
Sub-letting income	9	9	19	19
Bank interest income	–	–	2	7
	215	158	376	297

8. EMPLOYEE BENEFITS EXPENSES

	For the three months ended 30 June		For the six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Salaries, wages and allowances	24,664	23,098	53,405	48,668
Pension costs – defined contribution plans	1,225	1,132	2,579	2,221
(Written back of provision) provision for unutilised annual leave	(195)	28	417	550
Other employee benefits	846	1,672	1,978	1,872
	26,540	25,930	58,379	53,311

9. FINANCE COSTS

	For the three months ended 30 June		For the six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Finance costs:				
Bank borrowing not wholly repayable within five years	22	24	45	50
Unwinding of discount of provision for reinstatement cost	41	38	80	68
	63	62	125	118

10. PROFIT BEFORE TAX

	For the three months ended 30 June		For the six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Profit before tax is stated after charging the following:				
Kitchen consumables (include in other operating expenses)	681	612	1,444	950
Cleaning expenses (include in other operating expenses)	987	819	1,972	1,361
Operating lease rentals in respect of rented premises	8,485	7,708	16,955	14,771

11. INCOME TAX EXPENSES

	For the three months ended 30 June		For the six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Current income tax	1,160	1,766	2,544	2,423
Deferred tax	–	7	–	7
	1,160	1,773	2,544	2,430

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong for the three months and six months ended 30 June 2013.

12. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months and six months ended 30 June 2013 are based on the unaudited consolidated profit of approximately HK\$4,210,000 and HK\$8,068,000 attributable to owners of the Company for the three months and six months ended 30 June 2013 respectively (three months and six months ended 30 June 2012: HK\$3,936,000 and HK\$7,362,000 respectively) and the weighted average number of ordinary shares of 3,200,000,000 and 3,200,000,000 (three months and six months ended 30 June 2012: 3,200,000,000 and 3,200,000,000 respectively) in issue during the respective periods.

The diluted earnings per share for the three months and six months ended 30 June 2012 and 2013 are the same as basic earnings per share as there were no dilutive potential ordinary shares outstanding during the periods.

13. DIVIDENDS

	For the three months ended 30 June		For the six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Dividends	-	-	-	200

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2013.

During the six months ended 30 June 2012, interim dividends amounting to HK\$200,000 was paid by Sencas Limited, a non-wholly owned subsidiary of the Company, to its minority shareholders.

14. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, additions of property, plant and equipment amounted to approximately HK\$9,131,000 (additions for the year ended 31 December 2012: HK\$19,464,000).

15. TRADE RECEIVABLES

The carrying amounts of trade receivables approximate their fair values. The aging analysis of these trade receivables is as follows:

	As at 30 June 2013 HK\$'000 (Unaudited)	As at 31 December 2012 HK\$'000 (Audited)
Within 30 days and neither past due nor impaired	2,259	1,646
31 – 60 days	3	2
61 – 90 days	–	7
	2,262	1,655

The Group's sales are mainly conducted in cash or by credit cards. Certain customers are granted a credit period of 30 days. Included in trade receivables balances as at 30 June 2013 were receivables of approximately HK\$3,000 (31 December 2012: HK\$9,000) that were past due. The trade receivables included in the above aging analysis are considered not impaired as there is no recent history of default. No provision for impairment of trade receivables was made as at 31 December 2012 and 30 June 2013. The Group does not hold any collateral over these balances.

The carrying amounts of the Group's trade receivables are denominated in HK\$.

16. TRADE PAYABLES

	As at 30 June 2013 HK\$'000 (Unaudited)	As at 31 December 2012 HK\$'000 (Audited)
Within 30 days	6,473	8,613
31 – 60 days	1,930	3,875
61 – 90 days	170	1,095
Over 90 days	179	153
	8,752	13,736

Payment terms granted by suppliers are generally 45 days after the end of the month in which the relevant purchases are made. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

The carrying amounts of the Group's trade payables are denominated in HK\$.

Included in trade payables as at 30 June 2013 was amounts due to companies controlled by executive Directors of the Company of approximately HK\$119,000 (31 December 2012: HK\$2,533,000).

17. BANK BORROWING, SECURED

	As at 30 June 2013 HK\$'000 (Unaudited)	As at 31 December 2012 HK\$'000 (Audited)
Mortgage loan, secured – repayable on demand	2,526	2,653

Based on the facility agreement, the mortgage loan will be repaid by 120 monthly instalments commencing from January 2012. There are 102 (31 December 2012: 108) instalments of the mortgage loan remained outstanding as at 30 June 2013. The facility agreement contains a repayment on demand clause pursuant to which the bank can at its discretion demand repayment of the entire outstanding balance from the Group in the absence of any defaults.

Mortgage loan carries interest at Prime Rate less 1.75% per annum.

The effective interest rate at the end of the reporting period is as follows:

	As at 30 June 2013 (Unaudited)	As at 31 December 2012 (Audited)
Mortgage loan	3.5%	3.5%

As at 31 December 2012 and 30 June 2013, the Group had aggregate banking facilities of approximately HK\$4,203,000 and HK\$4,076,000 respectively for loans and other facilities (including letter of guarantee). Unused facilities as at the same dates amounted to approximately HK\$107,000 and HK\$107,000 respectively. These facilities were secured by:

- (a) The Group's pledged bank deposit (for the letter of guarantee) amounting to HK\$1,500,000 (31 December 2012: HK\$1,500,000) as at 30 June 2013;
- (b) Leasehold land and building with a carrying amount of HK\$5,948,000 (31 December 2012: HK\$6,023,000) as at 30 June 2013; and
- (c) Certain business credit cards were guaranteed by Mr. Wong Kwan Mo and Ms. Lau Lan Ying, executive Directors, to the extent of HK\$50,000 in aggregate.

18. SHARE CAPITAL

	Nominal value	Number of shares	Share capital HK\$'000
Authorised			
Ordinary shares			
At 1 January 2012	0.01	1,000,000,000	10,000
Share subdivision (<i>Note (b)</i>)	0.001	9,000,000,000	–
		<hr/>	
At 31 December 2012 and 1 January 2013	0.001	10,000,000,000	10,000
Increase during the period (<i>Note (a)</i>)	0.001	90,000,000,000	90,000
		<hr/>	
At 30 June 2013	0.001	100,000,000,000	100,000
		<hr/> <hr/>	
Issued and fully paid			
Ordinary shares			
At 1 January 2012	0.01	320,000,000	3,200
Share subdivision (<i>Note (b)</i>)	0.001	2,880,000,000	–
		<hr/>	
At 31 December 2012 and 30 June 2013	0.001	3,200,000,000	3,200
		<hr/> <hr/>	

Notes:

- (a) Pursuant to an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 10 May 2013, the authorised share capital of the Company was increased from HK\$10,000,000 divided into 10,000,000,000 shares to HK\$100,000,000 divided into 100,000,000,000 shares by creation of 90,000,000,000 unissued shares.
- (b) Pursuant to an ordinary resolution passed by the shareholders of the Company at an extraordinary general meeting held on 12 January 2012, the Company's then issued and unissued ordinary shares of par value HK\$0.01 each in the share capital of the Company were sub-divided into 10 shares of HK\$0.001 each (the "Share Sub-division").

The sub-divided shares and new shares issued rank *pari passu* in all respects with the shares in issue prior to the Share Sub-division and the rights attaching to the sub-divided shares will not be affected by the Share Sub-division.

19. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed by the Company's shareholders at a special general meeting of the Company held on 9 December 2011, the Company adopted a share option scheme (the "Share Option Scheme") for the purpose of rewarding eligible participants who had made contribution to the Group as well as providing incentives in retaining the Group's existing employees and recruiting additional employees in attaining the long term objectives of the Group.

Subject to the terms of the Share Option Scheme, the Directors may, at their absolute discretion, grant or invite any person belonging to any of the following classes to take up options to subscribe for shares: (a) any employee, advisor, consultant, service provider, agent, customer, partner or joint-venture partner of the Group (including any director, whether executive or non-executive and whether independent or not, of the Group) who is in full-time or part-time employment with the Company or any subsidiaries, (b) any person who have contributed or may contribute to the Group.

The maximum number of shares which may be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

The total number of share which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the total number of shares in issue on 9 December 2011 unless the Company seeks the approval of the shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating the 10% limit.

The total number of shares issued and to be issued on the exercise of options granted and to be granted (including both exercised and outstanding options) in any 12-month period up to the date of grant of each eligible participant shall not exceed 1% of the total issued shares unless (i) a shareholders' circular is despatched to the shareholders; (ii) the shareholders approve the grant of the options in excess of the 1% limit referred to in this paragraph; and (iii) the relevant eligible participant and its associates abstain from voting on such resolution.

The exercise price of the option shares granted under the Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the higher of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (ii) the average closing price of the Company's share as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of grant; (iii) the nominal value of a share.

The Share Option Scheme will remain in force for a period of 10 years commencing from 9 December 2011 unless terminated by the Group.

Options granted under the Share Option Scheme must be taken up within 28 days of the date of grant. Upon acceptance of the option, the grantee shall pay HK\$1 to the Company as consideration for the grant.

No share options were granted since the adoption of the Share Option Scheme and there were no share option outstanding as at 30 June 2013 (31 December 2012: nil).

20. COMMITMENTS

(a) Capital commitments

	As at 30 June 2013 HK\$'000 (Unaudited)	As at 31 December 2012 HK\$'000 (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the Interim Financial Statements	9,225	195

(b) Operating lease commitments

As lessee

The Group leases certain of its restaurants, warehouses and offices under operating lease arrangements. Leases for properties are negotiated for terms ranging from two to ten years. Rental were fixed at the inception of the leases.

At the end of the reporting periods, the Group had future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 30 June 2013 HK\$'000 (Unaudited)	As at 31 December 2012 HK\$'000 (Audited)
Within one year	28,132	30,204
In the second to fifth years inclusive	66,179	79,889
	94,311	110,093

21. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) Transactions with connected and related parties

Details of transactions between the Group and the connected and related parties are disclosed below.

The Group had the following significant transactions with its connected and related parties during the periods:

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2013	2012	2013	2012
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Rental expense	(i)	2,465	2,465	4,930	4,930
Purchase of goods	(ii)	1,983	3,162	4,069	5,783
Loan interest income from a substantial shareholder		149	149	295	269

Notes:

- (i) Rental expenses were charged according to the terms of the rental agreement entered into between the parties.
- (ii) Purchases of goods from connected and related companies were made on a mutually agreed basis.

(b) Balances with connected and related parties

Save as disclosed elsewhere in the Interim Financial Statements, the Group had the following balances with connected and related parties:

On 18 January 2012, the Company entered into a loan agreement with KMW Investment Limited ("KMW"), a substantial shareholder of the Company beneficially owned by the executive Directors, for advancing a loan of HK\$9,900,000 to KMW. The loan receivable is guaranteed by the executive Directors, bears interest at Prime Rate plus 1%, and repayable in 3 years from the date of drawdown. Details of which are set out in the Company's announcement dated 18 January 2012.

(c) Others arrangements with connected and related parties

Save as disclosed elsewhere in the Interim Financial Statements, the Group had the following connected and related party transactions:

Compensation of key management personnel

	For the three months ended 30 June		For the six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Salaries, wages and allowances	249	104	566	264
Pension costs – defined contributions plans	4	2	8	5
	253	106	574	269

The remuneration of Directors and key management personnel is determined by the remuneration committee having regard to the performance of individual and market trends.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board is pleased to announce the Group's interim results for the six months ended 30 June 2013.

Business Review

The Group maintains a business philosophy of offering high quality cuisine at highly affordable prices. It is committed to providing memorable dining experiences to its customers by delivering delightfully prepared food, outstanding menu choices and a tastefully designed dining environment.

The Group has succeeded in achieving remarkable growth since its establishment. During the six months ended 30 June 2013, the Group established its ninth restaurant under its fourth brand "Home-made Cuisine" in Olympian City and signed an offer to lease of a property in Pacific Plaza, Sai Wan for its tenth restaurant under the brand of "Red Seasons". As at 30 June 2013, we are operating nine restaurants under four brands which are described below.

Red Seasons Aroma Restaurant ("Red Seasons")

Red Seasons targets customers desiring quality food and special Chinese cuisine at competitive prices. Many customers have found the allure of Red Reasons irresistible, thanks in large measure to the signature dish, roast suckling pig stuffed with glutinous rice and dried prawns. During the six months ended 30 June 2013, the Red Seasons restaurants have achieved a satisfactory result with the turnover up by around 5% to approximately HK\$97,644,000 as compared to the last corresponding period.

Plentiful Delight Banquet

The second brand established by the Group, Plentiful Delight Banquet serves Cantonese dim sum and fresh seafood delicacies that are not commonly found in other restaurants. Offering banquet facilities with a seating capacity of 100 banquet tables, Plentiful Delight Banquet can manage large-scale events up to 1,200 guests on a single occasion. During the six months ended 30 June 2013, Plentiful Delight Banquet recorded turnover of approximately HK\$46,002,000.

Red Royalty Banquet

Since its grand opening in December 2011, Red Royalty Banquet has registered an excellent performance. What differentiates it from Plentiful Delight Banquet is that Red

Royalty Banquet provides premium and deluxe Chinese banquet and dining services in a formal, grand environment decorated with contemporary, stylish and elegant items. Red Royalty Banquet's scale of operations is the largest within the Group's existing restaurants with a seating capacity of 120 banquet tables and can serve up to 1,400 guests on a single occasion.

During the six months ended 30 June 2013, Red Royalty Banquet generated turnover of approximately HK\$32,917,000. Turnover from banquet and dining services generated by Plentiful Delight Banquet and Red Royalty Banquet increased by approximately 2% as compared to the last corresponding period.

Home-made Cuisine

Home-made Cuisine targets mid-range spending classes and is a great place for a gathering of family and friends. It serves contemporary Cantonese cuisine in a comfortable and homey environment. The restaurants specialise in home-made dishes and soups while cooking in an innovative, hearty and healthy way. The menu offers the best choice for those seeking a healthy nutritious meal. A new signature dish, roast suckling chicken stuffed with rice and dried prawns, has been launched exclusively in Home-made Cuisine.

The second restaurant under the brand of Home-made Cuisine is located in Olympian City and commenced business in March 2013. During the six months ended 30 June 2013, Home-made Cuisine generated turnover of approximately HK\$6,369,000.

Financial Review

During the six months ended 30 June 2013, the Group's revenue amounted to approximately HK\$182,932,000, representing an increase of approximately 7% as compared to the last corresponding period. This was mainly attributable to the strong growth in comparable restaurant sales and the establishment of new restaurants. Profit attributable to owners of the Group increased by approximately 10% to approximately HK\$8,068,000, representing a profit margin of approximately 4% (2012:4%).

The business environment has become increasingly challenging due to rising food, labour and rental costs during the period. Nonetheless, the Group has been able to maintain good cost controls and improve operating efficiencies through a series of effective cost control measures.

The cost of inventories consumed for the six months ended 30 June 2013 amounted to approximately HK\$58,152,000 (2012: HK\$60,152,000). The Group increased bulk purchases of food raw materials from suppliers in order to enjoy a larger discount, which also helped maintain the cost of inventories consumed below approximately 36% of the Group's turnover.

Employee benefits expenses were approximately HK\$58,379,000 (2012: HK\$53,311,000). The increase was mainly due to the newly opened Wan Chai Red Seasons and Home-made Cuisine restaurants, and the wage adjustments to retain experienced staff under the inflationary environment during the six months ended 30 June 2013. The Group regularly reviews the work allocations of the staff to improve and maintain a high standard of service.

The operating lease rental and related expenses for the six months ended 30 June 2013 amounted to approximately HK\$20,294,000, representing an increase of approximately 19% as compared to the last corresponding period. The increase was mainly due to the newly opened Wan Chai Red Seasons and Home-made Cuisine restaurants. To better control the lease and related expenses, the Group has entered into long-term lease agreements to maintain the rentals at a reasonable level.

Outlook and prospects

The operating environment in Hong Kong expected to remain challenging in the foreseeable future. Nonetheless, the management is confident that it can succeed and enhance shareholders value.

The Group is continuously searching for appropriate locations with high traffic flow and reasonable rentals to expand its restaurant network. The four brands of the Group have differentiated target markets and positioning which the management considers can address the various needs of the customers and enlarge its market share within the industry.

Through the ongoing expansion, the Group can further benefit from economies of scale through discounts given by suppliers for bulk purchases. The Group is also proactively monitoring the rising food costs, labour costs and rental expenses in order to raise our operational efficiencies.

The Group intends to drive sales growth by offering innovative dishes and quality services. At the same time, the management will keep an eye on potentially lucrative business opportunities for further expansion.

Other updates

Reference is made to the announcement of the Company dated 18 January 2012 in relation to the provision of loan to KMW and the acquisition of a call option to require KMW to sell the entire issued share capital of a project company which would develop and operate ramen restaurant business in Hong Kong to the Company. As at the date of this report, the ramen restaurant business has not yet been commenced by the project company of KMW as it is still in the progress of gathering the latest market information to further assess the profitability of the ramen restaurant business.

Liquidity, Financial and Capital Resources

Capital structure

The Group manages the capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of the Group remained unchanged from prior year.

The capital structure of the Group consists of secured bank borrowing, pledged bank deposits, cash and bank balances and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Directors review the capital structure on a semi-annual basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group expects to maintain a stable gearing ratio through the issue of new shares as well as the undertaking of new debts.

Cash position

As at 30 June 2013, the carrying amount of the Group's bank balances and cash was approximately HK\$56,663,000 (31 December 2012: approximately HK\$61,088,000).

The pledged bank deposit of approximately HK\$1,500,000 as at 31 December 2012 and 30 June 2013 was pledged to a bank for the issuance of a letter of guarantee in favour of the Group.

Bank borrowing

Details of bank borrowing as at 30 June 2013 are set out in Note 17 to the Interim Financial Statements.

Gearing ratio

Gearing ratio is calculated as net debt (bank borrowing less bank balance and cash) divided by the total of net debt and total equity.

Gearing ratio was not applicable to the Group as at 30 June 2013 as the Group's bank balances and cash are larger than its bank borrowings.

Exchange Rate Exposure

Since most of the revenue and expenditure are made in Hong Kong dollars, the Group is not exposed to significant foreign exchange exposure.

Capital Expenditure and Commitments

Details of the capital expenditure and capital commitments are set out in the Notes 14 and 20 to the Interim Financial Statements respectively.

Charges on Assets

Details of the charges on the Group's assets as at 30 June 2013 were set out in Note 17 to the Interim Financial Statements.

Contingent Liabilities

Save as disclosed elsewhere in the Interim Financial Statements, there were no other significant contingent liabilities of the Group as at 30 June 2013.

Dividends

Details of the dividends are set out in the Note 13 to the Interim Financial Statements.

Employees Numbers and Remuneration Policy

As at 30 June 2013, the Group had 725 employees. In order to attract and retain high quality staff and to enable smooth operation within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis.

Significant Investment Held, Material Acquisitions or Disposals of Subsidiaries and Affiliated Companies, and Plans for Material Investments or Capital Assets

There were no significant investments held, material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2013. Save for the business plan as disclosed in the Company's prospectus dated 30 June 2011 (the "Prospectus"), there is no plan for material investments or capital assets as at 30 June 2013.

Comparison of Business Plan with Actual Business Progress

The following is a comparison of the Group's business plan as set out in the Prospectus with actual business progress for the six months ended 30 June 2013.

Business plan up to 30 June 2013 as set out in the Prospectus	Actual business progress for the six months ended 30 June 2013
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Diversify service and product offerings with the implementation of a new branding strategy

Open of Red Royalty Banquet	Open of the Group's sixth restaurant in Yuen Long under Red Royalty Banquet, which will become the third brand established by the Group, targeting customers looking for premium and deluxe Chinese wedding banquet and dining services.	The Group has established Red Royalty Banquet in December 2011.
Open of another one new restaurant	Open one more restaurant under the brand of Red Seasons in early 2013, with an expected saleable area of approximately 1,000 square meters.	The Group's seventh restaurant under the brand of Red Seasons was established in March 2012.
Opening of other food outlets	Increase the source of income by horizontal expansion to reach a more diversified group of customers.	The Group has established its fourth brand "Home-made Cuisine". The first Home-made Cuisine is located in Wan Chai and has commenced business since July 2012. The second Home-made Cuisine is located in Olympian City and has commenced business since March 2013.

Upgrade existing restaurant facilities

Upgrade existing restaurant facilities	Enhance the Group's existing restaurant equipments, utensils and general supplies in existing restaurants with the aim to provide its customers with comfortable dining environment.	The Group has purchased various restaurant equipments, utensils and general supplies in existing restaurants to provide its customers with comfortable dining environment.
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Strengthen staff training

Strengthen staff training	Provide staff training to (i) improve customer service, (ii) enhance food knowledge, food safety and personal hygiene, (iii) maximise management efficiency, (iv) promote unique concept and style and (v) strengthen value-added service of the management and staff of the Group.	The Group has appointed external professional party and recruited internal training manager to provide on-the-job training to its employees.
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Enhance marketing activities to promote brand awareness

Enhance marketing activities to promote brand awareness	Strengthen the marketing efforts in promoting its brands in terms of brand-building, advertising and other means of promotion.	The Group has arranged regular advertising campaigns to promote the Group's business and its brands.
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Formation of strategic partnerships or cooperation arrangements with reputable industry partners in Hong Kong and China

Formation of strategic partnerships with reputable partners in Hong Kong and China	Operate with business partner to develop distribution channels and/or business presence in Hong Kong and China	The Group is identifying suitable partners for future business development.
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The net proceeds from the placing were approximately HK\$63.5 million, which was based on the final placing price of HK\$1.0 per share and the actual expenses related to the listing. Accordingly, the Group adjusts the use of proceeds in the same manner and proportion as shown in the Prospectus.

The net proceeds from the placing from the date of Listing (i.e. 8 July 2011) (the "Listing Date") to 30 June 2013 had been applied as follows:

	Adjusted use of proceeds in the same manner and proportion as shown in the Prospectus from the Listing Date to 30 June 2013 HK\$ million	Actual use of proceeds from the Listing Date to 30 June 2013 HK\$ million
– Diversify service and product offerings with the implementation of a new branding strategy	40.0	46.2
– Upgrade existing restaurant facilities	1.1	1.1
– Strengthen staff training	2.1	1.6
– Enhance marketing activities to promote brand awareness	3.4	1.3
– Formation of strategic partnerships with reputable partners in Hong Kong and China	2.2	–
– Working capital	5.0	5.0
	<hr/>	
Total	53.8	55.2
	<hr/> <hr/>	

Actual use of proceeds was higher as compared to the adjusted net proceeds which was mainly attributable to the early opening of the Group's seventh restaurant under the brand of Red Seasons in Wan Chai.

The Directors will constantly evaluate the Group's business objective and will change or modify plans against the changing market condition to ascertain the business growth of the Group.

All the unutilised balances have been placed in licensed banks in Hong Kong.

SHARE OPTION SCHEME

Details of the share option scheme are set out in the Note 19 to the Interim Financial Statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2013, the interests or short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required 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 were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required, 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 were 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 Kwan Mo (Note)	Interest in controlled corporation	1,665,208,000	52%
Ms. Lau Lan Ying (Note)	Interest in controlled corporation	1,665,208,000	52%

Note:

1,415,208,000 and 250,000,000 shares are owned by KMW Investments Limited and Strong Light Investments Limited respectively. KMW Investments Limited and Strong Light Investments Limited are companies incorporated in the British Virgin Islands and Hong Kong respectively. The entire issued share capital of KMW Investments Limited and Strong Light Investments Limited are beneficially owned as to 50% by Mr. Wong Kwan Mo and 50% by Ms. Lau Lan Ying.

Saved as disclosed above, as at 30 June 2013, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 to Rule 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as the Directors are aware, as at 30 June 2013, other than the Directors or chief executives of the Company whose interests or short positions are disclosed under the paragraph headed "Directors' and chief executives' interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations" above, the following person has an interest or short position in the shares or underlying shares of the Company which has to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO, and who was expected, directly or indirectly, to be interested in 5% 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 are listed as follows:

Long positions in shares and underlying shares of the Company

Name of Shareholder	Capacity/nature of interest	Total number of ordinary shares	Approximate percentage of interest
KMW Investments Limited (Note)	Beneficial owner	1,415,208,000	44%
Strong Light Investments Limited (Note)	Beneficial owner	250,000,000	8%

Note:

1,415,208,000 and 250,000,000 shares are owned by KMW Investments Limited and Strong Light Investments Limited respectively. KMW Investments Limited and Strong Light Investments Limited are companies incorporated in the British Virgin Islands and Hong Kong respectively. The entire issued share capital of KMW Investments Limited and Strong Light Investments Limited are beneficially owned as to 50% by Mr. Wong Kwan Mo and 50% by Ms. Lau Lan Ying.

Saved as disclosed above, as at 30 June 2013, the Directors were not aware of any other person (other than the Directors or chief executives as disclosed in the paragraph headed "Directors' and chief executives' interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations" above) who had, or deemed to have, interests or short positions in the shares, underlying shares or debentures of the Company which has to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO, or who was directly or indirectly interested in 5% 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.

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the sections "Share Option Scheme" and "Directors' and chief executives' interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations" above, at no time during the six months ended 30 June 2013 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares during the six months ended 30 June 2013.

COMPLIANCE ADVISER'S INTEREST IN THE COMPANY

As at 30 June 2013, as notified by the Company's compliance adviser, Quam Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 29 June 2011 and the appointment of Quam Capital Limited as the financial adviser of the Company in relation to the proposed Transfer of Listing under Chapter 9A of the Listing Rules (details of which were disclosed in the announcement of the Company dated 8 May 2013), neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

COMPETING INTERESTS

None of the Directors is interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group during the six months ended 30 June 2013.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms which are the same as the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company periodically issues notices to its Directors reminding them of the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of financial results. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the required standards of dealings as set out in the Model Code throughout the period under review. The Company was not aware of any non-compliance during the six months ended 30 June 2013.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board considers that the Company has complied with the code provisions in the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules during the six months ended 30 June 2013.

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 Rules 5.28 and 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 (effective until 31 March 2012) as set out in Appendix 15 to the GEM Listing Rules. On 23 March 2012, the Board adopted a set of the revised terms of reference of the audit committee of the Company, which has included changes in line with the Corporate Governance Code requirements effective from 1 April 2012. The revised terms of reference setting out the audit committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the audit committee, among other things, are to make recommendation to the Board on the appointment, re-appointment 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.

As at 30 June 2013, the audit committee of the Company consists of three independent non-executive Directors, namely Mr. Li Fu Yeung, Ms. Chiu Man Yee and Mr. Ho Chun Fai. Mr. Li Fu Yeung is the chairman of the audit committee.

The audit committee had reviewed the Interim Financial Statements for the six months ended 30 June 2013 and is of the opinion that the preparation of such statements complied with the applicable accounting standards and that adequate disclosures have been made.

By Order of the Board
Gayety Holdings Limited
Wong Kwan Mo
Chairman and Executive Director

Hong Kong, 14 August 2013

As at the date of this report, the Board comprises Mr. Wong Kwan Mo and Ms. Lau Lan Ying as executive Directors, and Mr. Ho Chun Fai, Mr. Li Fu Yeung and Ms. Chiu Man Yee as independent non-executive Directors.