

Gayety Holdings Limited 喜尚控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8179



Third Quarterly Report 2011

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

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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. Yu Ka Ho
Mr. Li Fu Yeung
Ms. Chiu Man Yee

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. Yu Ka Ho (*Chairman*)
Mr. Li Fu Yeung
Ms. Chiu Man Yee

Remuneration Committee Members

Ms. Lau Lan Ying (*Chairman*)
Mr. Yu Ka Ho
Mr. Li Fu Yeung

Auditors

SHINEWING (HK) CPA Limited

Legal Advisers to the Company

Pinsent Masons

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 nine months ended 30 September 2011 increased by approximately 28.7% to approximately HK\$194,391,000 (2010: HK\$151,024,000).
- Profit attributable to the owners of the Company for the nine months ended 30 September 2011 increased by approximately 92.5% to approximately HK\$10,598,000 (2010: HK\$5,505,000). Taking out the effect of one-off listing fee of approximately HK\$3,683,000, the profit attributable to owners of the Company for the nine months ended 30 September 2011 increased significantly by approximately 159.4%.
- Basic earnings per share for the nine months ended 30 September 2011 was approximately HK\$4.00 cents (2010: HK\$2.29 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 nine months ended 30 September 2011, together with the unaudited comparative figures for the corresponding period in 2010, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months and nine months ended 30 September 2011

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Revenue	4	63,727	55,343	194,391	151,024
Other income	4	29	345	374	1,001
Cost of inventories consumed		(25,550)	(20,097)	(72,021)	(54,565)
Employee benefits expenses	5	(18,452)	(16,977)	(55,487)	(44,468)
Depreciation		(2,286)	(2,185)	(6,731)	(5,449)
Operating lease rental expenses		(5,329)	(5,523)	(16,462)	(14,865)
Utilities expenses		(4,855)	(4,825)	(14,354)	(11,855)
Other (losses) gains-net		(167)	5	(154)	(189)
Other operating expenses		(2,876)	(4,100)	(15,125)	(11,221)
Operating profit	6	4,241	1,986	14,431	9,413
Finance costs-net	7	(151)	(186)	(301)	(601)
Profit before income tax		4,090	1,800	14,130	8,812
Income tax expenses	8	(1,059)	(703)	(3,327)	(2,323)
Profit and total comprehensive income for the period		3,031	1,097	10,803	6,489
Attributable to:					
Owners of the Company		3,694	782	10,598	5,505
Non-controlling interests		(663)	315	205	984
		3,031	1,097	10,803	6,489
Earnings per shares					
– Basic and diluted (HK cents)	9	1.25	0.33	4.00	2.29

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 30 September 2011

	Attributable to owners of the Company						Non-controlling interests	Total
	Share capital	Capital reserve	Share premium	Retained earning	Total	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Balance at 1 January 2011	-	486	-	18,181	18,667	2,007	20,674	
Issue of new share for incorporation	-	-	-	-	-	-	-	
Reorganisation	380	(380)	-	-	-	-	-	
Issue of new shares for the placing	800	-	79,200	-	80,000	-	80,000	
Capitalisation of shares issue	2,020	-	(2,020)	-	-	-	-	
Share issue expenses	-	-	(12,420)	-	(12,420)	-	(12,420)	
Profit and total comprehensive income for the period	-	-	-	10,598	10,598	205	10,803	
Dividends (Note 10)	-	-	-	(23,000)	(23,000)	-	(23,000)	
Balance at 30 September 2011	3,200	106	64,760	5,779	73,845	2,212	76,057	
Balance at 1 January 2010	-	486	-	9,709	10,195	737	10,932	
Profit and total comprehensive income for the period	-	-	-	5,505	5,505	984	6,489	
Dividends (Note 10)	-	-	-	(1,134)	(1,134)	(36)	(1,170)	
Balance at 30 September 2010	-	486	-	14,080	14,566	1,685	16,251	

NOTES TO THE THIRD QUARTERLY FINANCIAL STATEMENTS

For the nine months ended 30 September 2011

Notes:

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 shares were listed on GEM of the Stock Exchange on 8 July 2011. In the opinion of the Directors, the ultimate holding company of the Company is KMW Investments Limited ("KMW") which is incorporated in the British Virgin Islands and wholly-owned by Mr. Wong Kwan Mo and his spouse, Ms. Lau Lan Ying (the "Ultimate Shareholders").

The registered office and principal place of business of the Company are located at the offices of Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and Shop 46, G/F., Ho Shun Tai Building, No. 10 Sai Ching Street, Yuen Long, New Territories.

The Company is an investment holding company. The Group is principally engaged in the operation of a chain of Chinese restaurants in Hong Kong (the "Chinese Restaurants Business").

1.2 Reorganisation

Under a group reorganisation scheme (the "Reorganisation") in June 2011 to rationalise the structure of the Group in preparation for the listing of the shares on GEM of the Stock Exchange (the "Listing"), the Company became the holding company of the companies now comprising the Group.

Details of the Reorganisation are set out in the paragraph headed "Corporate Reorganisation" in Appendix V to the prospectus dated 30 June 2011 issued by the Company (the "Prospectus").

The Reorganisation involved business combinations of entities under common control. Accordingly, the unaudited condensed consolidated third quarterly financial statements for the nine months ended 30 September 2011 (the "Third Quarterly Financial Statements") and the related notes thereto have been prepared on a combined basis by applying the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger accounting for common control combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). On this basis, the Third Quarterly Financial Statements, including comparative figures, are presented as if the current group structure had been in existence throughout the nine months ended 30 September 2010 and 2011, or since their respective dates of incorporation, where this is a shorter period.

2. BASIS OF PREPARATION

The Third Quarterly 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 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 Third Quarterly Financial Statements are consistent with those adopted in the accountants’ report included in the Prospectus, except for adoption of the new and revised HKFRSs. The Third Quarterly Financial Statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the accountants’ report included in the Prospectus.

The Third Quarterly Financial Statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values. The Third Quarterly 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 2011.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendment)	Classification of Rights Issues
HKAS 34 (Amendment)	Interim Financial Reporting
HK (IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

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 Third Quarterly Financial Statements:

HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ¹
HKFRS 7 (Amendments)	Disclosure – Transfers of Financial Assets ¹
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ³
HKFRS 11	Joint Arrangements ³
HKFRS 12	Disclosure of Interests in Other Entities ³
HKFRS 13	Fair Value Measurement ³
HKAS 1 (Amendment)	Presentation of Items of Other Comprehensive Income ⁴
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets ²
HKAS 19 (Revised)	Employee Benefits ³
HKAS 27 (Revised)	Separate Financial Statements ³
HKAS 28 (Revised)	Investments in Associates and Joint Ventures ³

¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual periods beginning on or after 1 January 2012.

³ Effective for annual periods beginning on or after 1 January 2013.

⁴ Effective for annual periods beginning on or after 1 July 2012.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results and financial position.

4. REVENUE AND OTHER INCOME

	For the three months ended 30 September		For the nine months ended 30 September	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Revenue				
Chinese restaurant operations	63,727	55,343	194,391	151,024
Other income				
Sub-letting income	29	159	329	479
Management fee income from a related company	–	168	–	503
Sundry income	–	18	45	19
	29	345	374	1,001

5. EMPLOYEE BENEFITS EXPENSES

	For the three months ended 30 September		For the nine months ended 30 September	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Salaries, wages and allowances	17,077	16,092	51,050	41,093
Pension costs – defined contribution plans (Written back of provision)	821	585	2,426	1,670
provision for unutilised annual leave	(10)	(85)	682	373
Other employee benefits	564	385	1,329	1,332
	18,452	16,977	55,487	44,468

6. OPERATING PROFIT

	For the three months ended 30 September		For the nine months ended 30 September	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Operating profit is stated after charging the following:				
Kitchen consumables	478	966	2,202	2,529
Cleaning expenses	419	352	1,194	1,051
Listing expenses	–	–	3,683	–

None of the directors received any fees or emoluments in respect of their services to the Group during the nine months ended 30 September 2010 and 2011.

7. FINANCE COSTS – NET

	For the three months ended 30 September		For the nine months ended 30 September	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Finance costs:				
– Bank loans	(202)	(133)	(289)	(453)
– Bank overdrafts	(7)	(31)	(15)	(107)
– Unwinding of discount of provision for reinstatement cost	(29)	(22)	(86)	(59)
	(238)	(186)	(390)	(619)
Finance income:				
– Cash at banks	87	–	89	18
Finance costs – net	(151)	(186)	(301)	(601)

8. INCOME TAX EXPENSES

	For the three months ended 30 September		For the nine months ended 30 September	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Current income tax	845	485	3,113	2,105
Under-provision in prior years	214	218	214	218
	1,059	703	3,327	2,323

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong for the nine months ended 30 September 2011.

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months and nine months ended 30 September 2011 are based on the profit attributable to owners of the Company of HK\$3,694,000 and HK\$10,598,000 respectively (three months and nine months ended 30 September 2010: HK\$782,000 and HK\$5,505,000 respectively) and the weighted average number of ordinary shares of 296,393,000 and 265,201,000 (three months and nine months ended 30 September 2010: 240,000,000 and 240,000,000 respectively) in issue during the respective periods.

The weighted average number of shares in issue during the three months and nine months ended 30 September 2011 are based on the assumption that 240,000,000 shares of the Company are in issue, comprising 38,000,000 shares in issue and 202,000,000 shares issued pursuant to the capitalisation issue, as if the shares were outstanding throughout the period from 1 January 2011 to the date of placing and 80,000,000 shares issued for the placing.

The weighted average number of shares in issue during the three months and nine months ended 30 September 2010 are based on the assumption that 240,000,000 shares of the Company are in issue, comprising 38,000,000 shares in issue and 202,000,000 shares issued pursuant to the capitalisation issue, as if the shares were outstanding throughout the respective periods.

The diluted earnings per share for the respective periods are the same as basic earnings per share as there are no dilutive potential ordinary shares.

10. DIVIDENDS

	For the three month ended 30 September		For the nine month ended 30 September	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Dividends	–	390	23,000	1,170

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2011.

On 8 March 2011 and 11 May 2011, interim dividends amounting to HK\$16,000,000 and HK\$7,000,000 was declared and paid by Gayety Limited, a subsidiary of the Company, to its sole shareholder prior to the Reorganisation.

For the nine months ended 30 September 2010, the Group declared and paid dividends of approximately HK\$1,170,000 to the shareholders of the companies now comprising the Group.

11. RESERVES

The capital reserve of the Group represents the share capital of the companies comprising the Group prior to the Reorganisation.

After the Reorganisation, such reserve represents the excess of the nominal value of the subsidiaries' shares acquired over the nominal value of the Company's shares issued in exchange at the time of the Reorganisation.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board is pleased to announce the Group's third quarterly results after its listing on the GEM of The Stock Exchange on 8 July 2011. The successful listing has laid a solid foundation for the Group's future expansion plans and increased awareness of its brand names in Hong Kong.

Business and Financial Review

Revenue

The revenue for the nine months ended 30 September 2011 amounted to approximately HK\$194,391,000, an increase of approximately 28.7% as compared to that of the nine months ended 30 September 2010. The increase was primarily due to the strong growth in comparable restaurant sales.

During the review period, the "Red Seasons Aroma Restaurant" branded restaurants performed well. The revenue from this brand increased by approximately 42.4% to approximately HK\$119,133,000 for the nine months ended 30 September 2011, representing approximately 61.3% of the Group's total revenue.

In December 2010, Lam Tei Red Seasons, one of the Group's restaurants, was honoured by the Michelin Guide Hong Kong Macau 2011 with the Michelin Bib Gourmand, the Michelin Guide distinction awarded to restaurants judged to be "wonderful restaurants with top-quality cuisine at highly affordable prices". Furthermore, the "Red Seasons Aroma Restaurant" branded restaurants were awarded the "U Favorite Food Award" by U Magazine in March 2011 and "U Choice of Brand Award 2011 – Choice of Dining" by Metro Broadcast Corporation Limited in July 2011. Benefitting from the enhanced brand reputation, the revenue of Lam Tei Red Seasons increased by approximately 29.5%, to approximately HK\$33,590,000 for the nine months ended 30 September 2011.

The recently opened restaurants also registered significant revenue growth. Shatin Red Seasons and Tsuen Wan Red Seasons, which were opened in January and June 2010 respectively, contributed an aggregate revenue of approximately HK\$57,105,000 for the nine months ended 30 September 2011, a substantial rise of approximately 88.2% compared to the last corresponding period. Tuen Mun Red Seasons also contributed a slight climb in revenue of approximately 3.9% for the nine months ended 30 September 2011 compared to the last corresponding period.

In addition, the “Plentiful Delight Banquet Restaurant” benefited from the rising demand in large scale dining services, wedding banquets and other events and continuous improvement of the general economic condition. The revenue of the “Plentiful Delight Banquet Restaurant” rose to approximately HK\$75,258,000 for the nine months ended 30 September 2011, an increase of approximately 11.7% compared to that of the nine months ended 30 September 2010.

Cost of inventories consumed

The cost of inventories consumed for the nine months ended 30 September 2011 amounted to approximately HK\$72,021,000, an increase of approximately 32.0% compared with that of the nine months ended 30 September 2010. The rise was in line with the increase of revenue of the Group for the nine months ended 30 September 2011. The cost of inventories consumed remained below approximately 37% for the nine months ended 30 September 2010 and 2011.

Employee benefit expenses

The employee benefits expenses for the nine months ended 30 September 2011 amounted to approximately HK\$55,487,000, an increase of approximately 24.8% as compared with that of the nine months ended 30 September 2010.

The increase was mainly due to Tsuen Wan Red Seasons. Tsuen Wan Red Seasons was fully operated during the nine months ended 30 September 2011 while it was only operated for three months during the last corresponding period.

Operating lease rental expenses

The operating lease rental expenses for the nine months ended 30 September 2011 amounted to approximately HK\$16,462,000, an increase of approximately 10.7% as compared with that of the nine months ended 30 September 2010. The rise was mainly due to (i) the full operation of Tsuen Wan Red Seasons; and (ii) a new lease for the office in Yuen Long was entered into during the nine months ended 30 September 2011.

Utilities expenses

The utilities expenses for the nine months ended 30 September 2011 amounted to approximately HK\$14,354,000, an increase of approximately 21.1% as compared with that of the nine months ended 30 September 2010. The rise was in line with the increase of revenue of the Group for the nine months ended 30 September 2011.

Other operating expenses

The other operating expenses represent mainly one-off listing expenses and expenses incurred for the Group's operation, including kitchen consumables, laundry expenses, cleaning expenses, repair and maintenance expenses etc.

The other operating expenses for the nine months ended 30 September 2011 amounted to approximately HK\$15,125,000, representing an increase of approximately 34.8% compared with that of the nine months ended 30 September 2010. This increase was primarily due to the one-off listing expenses of approximately HK\$3,683,000 and the expenses incurred in relation to full operation of Tsuen Wan Red Seasons during the nine months ended 30 September 2011.

Operating profit and margin

The operating profit for the nine months ended 30 September 2011 amounted to approximately HK\$14,431,000, an increase of approximately 53.3% compared with that of the nine months ended 30 September 2010. The operating profit margin improved from approximately 6.2% for the nine months ended 30 September 2010 to approximately 7.4% for the nine months ended 30 September 2011.

Taking out the effect of one-off listing expenses, (i) the operating profit for the nine months ended 30 September 2011 rocketed by approximately 92.4% compared with that of the nine months ended 30 September 2010; and (ii) the operating margin increased accordingly to approximately 9.3% for the nine months ended 30 September 2011.

During the current period, the Group operated its restaurants successfully. Shatin Red Seasons and Tsuen Wan Red Seasons, the newly opened restaurants of the Group, achieved business turnaround. The Plentiful Delight Banquet Restaurant and Red Seasons Aroma Restaurants were also well-accepted by customers. The management of the Group resolved to improve the operating efficiency and control its expenditures. The Group increased the bulk purchases of food raw materials from the suppliers and enjoyed larger discount. The Group reviewed the work allocation of the staff from time to time to enhance the labour efficiency. The Group also entered into long term tenancy agreements to maintain the operating lease rentals at reasonable level. These factors led to an increase in both the operating profit and margin during the nine months ended 30 September 2011.

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

The profit attributable to owners of the Company for the nine months ended 30 September 2011 amounted to approximately HK\$10,598,000, an increase of approximately 92.5% compared with that of the nine months ended 30 September 2010. The net profit margin improved from approximately 3.6% for the nine months ended 30 September 2010 to approximately 5.5% for the nine months ended 30 September 2011.

Taking out the effect of one-off listing expenses, (i) the profit attributable to owners of the Company for the nine months ended 30 September 2011 rocketed by approximately 159.4% compared with that of the nine months ended 30 September 2010; and (ii) the net profit margin increased accordingly to approximately 7.3% for the nine months ended 30 September 2011.

Prospects

The management is optimistic about the domestic catering industry in the second half of 2011 and believes the Group will continue its growth and strengthen its position as a full-service Chinese restaurant operator in Hong Kong.

Looking ahead, the Group is continuing to expand its restaurant network. The Group plans to open its sixth restaurant in Yuen Long under a new brand, "Red Royalty Banquet", in the fourth quarter of 2011. With a seating capacity of 120 banquet tables in a modern and elegant setting, "Red Royalty Banquet" targets customers looking for premium dining and deluxe Chinese wedding banquet and dining services. The Group also plans to open its seventh restaurant under the brand of "Red Seasons Aroma Restaurant" before 2013.

In addition, we will continue to upgrade the existing restaurants facilities and offer various training programmes to the staff to improve the dining environment and enhance customer satisfaction. To further bolster the Group's brand, more resources will be allocated to marketing and advertising activities to strengthen customer loyalty and attract new customers. With an aim to drive further growth of the Group, it will continue to explore new markets opportunities in both Hong Kong and China for extension of our services and expansion of our network.

To cope with the ongoing challenges from rising food, labour and rental cost, the Group will (i) conduct more bulk purchases of food raw materials; (ii) review the work allocation of staff timely; and (iii) enter into long term tenancy agreements. With these measures, the Group is able to keep the operating costs at reasonable level.

Capital Structure and Gearing Ratio

The capital structure of the Group consists of net debt, including bank borrowings and amounts due to directors less cash and equivalents, and the shareholders' equity of the Group. As at 30 September 2011, the capital of the Group amounted to approximately HK\$73,845,000 (31 December 2010: HK\$16,694,000).

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Gearing ratio is not applicable to the Group as at 30 September 2011 as the Group did not have any borrowings as at 30 September 2011.

Liquidity and Financial Resources

The net current assets of the Group as at 30 September 2011 were approximately HK\$49,681,000 (31 December 2010: approximately HK\$5,837,000).

As at 30 September 2011, the Group had aggregate banking facilities of approximately HK\$21,500,000 (31 December 2010: approximately HK\$6,500,000) for loans, overdrafts and other facilities. Unused facilities as at the same date amounted to approximately HK\$20,057,000 (31 December 2010: approximately HK\$5,000,000).

Dividends

The Board does not recommend payment of an interim dividend for the nine months ended 30 September 2011.

On 8 March 2011 and 11 May 2011, interim dividends amounting to HK\$16,000,000 and HK\$7,000,000 were respectively declared and paid by Gayety Limited, a subsidiary of the Company, to its sole shareholder prior to the Reorganisation.

For the nine months ended 30 September 2010, the Group declared and paid dividends of approximately HK\$1,170,000 to the shareholders of the companies now comprising the Group.

Significant Investments 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 nine months ended 30 September 2011. Save for the business plan as disclosed in the Prospectus, there is no plan for material investments or capital assets as at the date of this report.

SHARE OPTION SCHEME

Up to 30 September 2011, the Company has not adopted any share option scheme or granted any option.

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

As at 30 September 2011, the interests or short positions of the Directors and the chief executive 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 (<i>Note 1</i>)	Interest in controlled corporation	240,000,000	75%
Ms. Lau Lan Ying (<i>Note 2</i>)	Interest in controlled corporation	240,000,000	75%

Notes:

- (1) Mr. Wong Kwan Mo is deemed to be interested in all the shares held by KMW Investments Limited by virtue of the SFO.
- (2) Ms. Lau Lan Ying is deemed to be interested in all the shares held by KMW Investments Limited by virtue of the SFO.

Saved as disclosed above, as at 30 September 2011, none of the Directors and chief executive 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 September 2011, other than a Director or chief executive of the Company whose interests or short positions are disclosed under the paragraph headed "Directors' and chief executive's interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations" above, the following person have 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 were 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	240,000,000	75%

Note:

The entire issued share capital of KMW Investments Limited is owned as to 50% by Mr. Wong Kwan Mo and 50% by Ms. Lau Lan Ying.

Saved as disclosed above, as at 30 September 2011, the Directors were not aware of any other person (other than the Directors or chief executive as disclosed in the paragraph headed "Directors' and chief executive's 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 were 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 nine months ended 30 September 2011 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

Save as disclosed in the Prospectus, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares during the nine months ended 30 September 2011.

COMPLIANCE ADVISER'S INTEREST IN THE COMPANY

As at 30 September 2011, 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, 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 or the management shareholders of the Company or their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company during the period under review.

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, 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 September 2011, 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.

The Audit Committee had reviewed the unaudited Third Quarterly financial statements for the nine months ended 30 September 2011 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 November 2011

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