喜尚控股有限公司

Gayety Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8179

2011

Annual Report

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

Nomination Committee Members

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

Auditors

SHINEWING (HK) CPA Limited
Certified Public Accountants

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

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual results of Gayety Holdings Limited (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2011.

Business Review

The Group is currently operating six restaurants under three brands, namely Red Seasons Aroma Restaurants ("Red Seasons"), Plentiful Delight Banquet Restaurant ("Plentiful Delight Banquet") and Red Royalty Banquet Restaurant ("Red Royalty Banquet") during the year under reviewed. The year 2011 was a milestone year for the Group as on 8 July 2011, the Group was successfully listed on the GEM of The Stock Exchange. The successful listing has strengthened our financial position and laid a solid capital foundation for the Group's future expansion plans.

The adherence to our commitment of delivering consistently high quality food has been a key to the success of the Group's restaurant business. The Group is keen on developing innovative and special Chinese cuisine utilising authentic and ancient recipes to attract customers and differentiate its restaurants from its peers. In December 2011, 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". This is the Michelin Guide distinction awarded to those restaurants which are judged to be "wonderful restaurants with top-quality cuisine at highly available prices." It marked the second consecutive year that we have been honoured in the Michelin Guide and the accolade clearly and widely demonstrated the quality as well as the success of the Group.

A new brand Red Royalty Banquet was introduced to the public with the opening of the Group's sixth restaurant in Yuen Long in December 2011. With a seating capacity of 120 banquet tables, it targets customers searching for a premium dining experience as well as catering for deluxe Chinese wedding banquet and dining services. We expect the new brand to become another major income stream for the Group in the coming years.

Financial Results

The Group achieved remarkable growth both in revenue and profit despite the negative impact of rising inflation. For the year ended 31 December 2011, the Group recorded a turnover of HK$279,847,000, an increase of 33% from HK$210,320,000 as reported last year. Profit attributable to the owners of the Company rose to HK$22,904,000, a climb of 130% from HK$9,960,000 as reported last year. Eliminating the effect of one-off listing expenses of HK$4,343,000, the profit attributable to owners of the Company increased significantly by 173%. The sizeable increases in turnover and profit attributable to the owners of the Company were mainly due to the strong growth in comparable restaurant sales, especially when the newly-opened restaurants in Shatin and Tsuen Wan under the brand Red Seasons began to contribute a greater amount to the Group's revenue. Basic earnings per share was HK$0.82 cents (2010: HK$0.42 cents).

CHAIRMAN'S STATEMENT

Prospects

Moving forward, the Group will search for suitable sites with high traffic flow and reasonable rentals to expand its restaurant network. The Group has launched its seventh restaurant under the Red Seasons brand in Wanchai in March 2012. It covers an area of approximately 1,000 square metres with a seating capacity of 360 seats.

The Group will continue to develop new signature dishes and products to ensure the menu remains distinctively appetising. The Group will enhance its brand awareness by intensifying brand promotion activities. Meanwhile, the Group will implement effective cost control measures and minimise the operating costs on rent, raw materials and labour accordingly. The Group will also conduct various feasibility studies to identify new business opportunities in terms of both cuisine and location.

Appreciation

Finally, I wish to take this opportunity to thank our shareholders, customers and business partners for their ongoing support and trust. Also, I would like to express my appreciation to my fellow Directors and the staff of the Group for their solid contribution and unwavering dedication to the Group. Based on our success, we remain optimistic about the prospects of the Group's future business development. We intend to execute our well-established business strategies to enhance the Group's value and to bring a desirable return to our shareholders.

Wong Kwan Mo
Chairman

Hong Kong, 23 March 2012

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out as follows:

Executive Directors

Mr. Wong Kwan Mo (黃君武先生) ("Mr. Wong KM"), aged 55, the founder of the Group, is the chairman of the Board and an executive Director. He was appointed an executive Director on 10 February 2011. Mr. Wong KM is an accomplished restaurateur who has over 30 years of operating experience in the food industry. Mr. Wong KM has been responsible for the overall management, business development and strategic planning of the Group since its establishment in 2006. Mr. Wong KM is the husband of Ms. Lau LY and a Controlling Shareholder.

Ms. Lau Lan Ying (劉蘭英女士) ("Ms. Lau LY"), aged 48, is the chief executive officer of the Board and an executive Director. She was appointed an executive Director on 10 February 2011. She is also the compliance officer of the Company. Ms. Lau LY has over 14 years of operating experience in the food industry, including mainly her involvement in the financial management of the fresh meat supply companies operated by Mr. Wong KM. Ms. Lau LY has been responsible for the overall strategic management in finance, accounting, human resources and marketing of the Group since 2006. Ms. Lau is a Controlling Shareholder.

Independent Non-Executive Directors

Mr. Yu Ka Ho (余嘉豪先生), aged 29, was appointed an independent non-executive Director on 25 June 2011. He is also the chairman of the audit committee of the Company and a member of the remuneration committee and nomination committee of the Company. Mr. Yu has over 5 years experience in the financial industry. He is currently the general manager of a subsidiary of a Hong Kong listed company. Mr. Yu obtained a bachelor's degree in Financial Engineering from City University of Hong Kong in 2004 and a master's degree in Mathematics for Finance and Actuarial Science from the Joint Degree Programme of City University of Hong Kong and Université Paris-Dauphine in 2007.

Mr. Li Fu Yeung (李富揚先生), aged 32, was appointed an independent non-executive Director on 25 June 2011. He is also the chairman of the nomination committee of the Company and a member of the audit committee and remuneration committee of the Company. Mr. Li has over 7 years of experience in the financial industry. Since 2004, Mr. Li has worked in Manulife (International) Limited and his current position is Unit Manager and is responsible for the sales and marketing of insurance related product. Mr. Li obtained a diploma in computer science from the Sydney Institute of Business and Technology in 2001.

Ms. Chiu Man Yee (趙曼而女士), aged 31, was appointed an independent non-executive Director on 25 June 2011. She is also the chairman of the remuneration committee of the Company and a member of the audit committee and nomination committee of the Company. Ms. Chiu has over 10 years of accounting and financial experience accumulated from working for various professional accounting firms. She is currently a finance manager of Standard Chartered Bank. Ms. Chiu obtained a bachelor's degree in finance and marketing from The Hong Kong University of Science and Technology in 2002. She is currently a member of Hong Kong Institute of Certified Public Accountants.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. Wong Tin King, Richard (黃天競先生), *CPA, ACA* aged 34, has been appointed as the chief financial officer and the company secretary of the Company on 24 June 2011. He graduated from The Hong Kong Polytechnic University with a bachelor's degree in accountancy in 2000. Mr. Wong has over 10 years of accounting experience accumulated from working for various professional accounting firms from 2000 to 2010. Mr. Wong is responsible for the accounting and financial functions of the Company, including developing financial strategy to support the Company's growth plan. Mr. Wong is currently an associate member of The Institute of Chartered Accountants in England and Wales and a member of Hong Kong Institute of Certified Public Accountants.

Mr. Li Wai Hung (李偉洪先生), aged 50, is a restaurant manager of the Group. Mr. Li has over 26 years of operating and managing experience in the restaurant industry accumulated from working as manager and/or general manager for various large-scale restaurants in Hong Kong since 1986. Mr. Li joined the Group in 2007 as the general manager and has been responsible for overseeing and managing the daily operation of Plentiful Delight Banquet Restaurant. Mr. Li has also taken up the management of Red Royalty Banquet.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Offering innovative and high quality Chinese cuisine and services is the core attribute of the Group's business, and a remarkable growth was achieved during the year despite a challenging operational environment. The Group's constant pursuit of quality in food, menu choices and restaurant decoration have further strengthened its foothold in the Chinese cuisine industry. During the year, the Group has established its third brand Red Royalty Banquet by opening its sixth restaurant in Yuen Long to provide a unique banquet experience to customers. Special ingredients and distinctive dishes have been added to enrich the menu variety. All of these business initiatives have accelerated the Group's network expansion plan while boosting the brand image.

The Group recorded an increase in revenue of approximately 33% to approximately HK$279,847,000. The rise has mainly been driven by the strong growth in comparable restaurant sales, especially when the newly-opened restaurants in Shatin and Tsuen Wan under the brand Red Seasons commenced contributions to the Group's revenue.

In December 2011, encouraged by the success of the restaurants under the Red Seasons and Plentiful Delight Banquet brands and the established reputation of the Group in providing specialty menus and catering for large-scale events and Chinese wedding banquets, the Group diversified its restaurant portfolio and established its third brand, Red Royalty Banquet. Red Royalty Banquet aims to provide premium Chinese wedding banquet and dining services in a grand setting with contemporary and stylish decoration. The Board believes the Group's overall business will be bolstered by the new brand.

During the year, the Chinese cuisine industry in Hong Kong has remained highly competitive. The substantial rise in food, labour and rental costs were the major factors placing pressure on the industry players. In order to counter the rising food cost, the Group improved its central procurement system and executed more bulk purchases. The Group also developed new dishes and meal sets for greater flexibility in pricing. Accordingly, the Group managed to maintain a consistent level of food cost, accounting for approximately 37% of the Group's revenue for both years. Meanwhile, the minimum wage law which came into effect in mid-2011 has not significantly affected the Group's profitability. Staff cost actually represented approximately 27% of the total revenue during the year under review (2010: 29%). The Group periodically reviewed the manpower allocation at each restaurant, which in turn raised efficiency. To minimise the impact of rising rental, the Group entered into long term tenancy agreements and was able to maintain steady and reasonable rents for the restaurants under its operation.

To stand out from its peers, the Group launched a series of marketing programmes to increase publicity and consumer awareness. The marketing cost amounted to approximately HK$455,000 (2010: HK$415,000). The Group's marketing strategy has proven to be effective, leading to the garnering of various awards, eliciting favourable comments in popular local food magazines and websites, as well as invitations to television and magazine interviews and boosting the loyal patronage earned by the Group through word-of-mouth praise from customers. The Group will continue to strengthen its brands aiming to gain recognition from customers.

MANAGEMENT DISCUSSION AND ANALYSIS

Awards and Certificates

The Group was accredited with the following awards and certifications during the year under review:

Restaurant	Awards/Certification	Awarding body
Lam Tei Red Seasons	Michelin Bib Gourmand	Michelin Guide Hong Kong Macau 2012
Red Seasons Aroma Restaurant	EatSmart Restaurant	Department of Health
Red Seasons Aroma Restaurant	U Favorite Food Award	U Magazine
Red Seasons Aroma Restaurant	U Choice of Brand Award 2011 – Choice of Dining	Metro Broadcast Corporation Limited
Red Seasons Aroma Restaurant	Silver Award of 2011 Best of the Best Culinary Award – Thick Soup	Hong Kong Tourism Board and Hong Kong and China Gas Company Limited

Financial Review

Revenue

The revenue for the year ended 31 December 2011 amounted to approximately HK$279,847,000, an increase of approximately 33% as compared to the previous year, primarily due to the strong growth in comparable restaurant sales.

During the year, the Red Seasons brand performed in a satisfactory manner with the revenue up by approximately 37% to approximately HK$162,412,000, representing approximately 58% of the Group's total revenue. Among the same branded restaurants, Lam Tei Red Seasons, achieved an encouraging increase in revenue by 27% to approximately HK$44,918,000. It was awarded with the "Michelin Bib Gourmand" by the Michelin Guide Hong Kong Macau 2011 for the second consecutive year.

The newly opened restaurants also contributed significant revenue growth to the Group. Shatin Red Seasons and Tsuen Wan Red Seasons opened in January and June 2010 respectively, contributed aggregate revenue of approximately HK$79,763,000 for the year ended 31 December 2011, a substantial rise of approximately 70% compared to last year. Tuen Mun Red Seasons also contributed a slight increase in revenue of approximately 5% for the year ended 31 December 2011 compared to the previous year.

To respond to the rising demand in large scale dining services, wedding banquets and other events, the Group established its sixth restaurant under a new brand, Red Royalty Banquet, in December 2011. The Board expects it to provide a positive impact to the Group in the coming years. In addition, the revenue of Plentiful Delight Banquet rose to approximately HK$113,089,000 for the year ended 31 December 2011, an increase of approximately 23% as compared to the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Inventories Consumed

The cost of inventories consumed for the year ended 31 December 2011 amounted to approximately HK$104,335,000, an increase of approximately 38% compared to last year. The rise was in line with the increase of revenue from the Group for the year ended 31 December 2011. The cost of inventories consumed remained below approximately 37% of the Group's revenue for the year ended 31 December 2010 and 2011.

Employee Benefit Expenses

Employee benefits expenses for the year ended 31 December 2011 amounted to approximately HK$75,304,000, an increase of approximately 22% as compared to last year. This was mainly due to Tsuen Wan Red Seasons. That restaurant was full operated during the year ended 31 December 2011 while it was only operated for six months in previous year.

Operating Lease Rental and Related Expenses

The operating lease rental and related expenses for the year ended 31 December 2011 amounted to approximately HK$23,796,000, an increase of approximately 8% as compared to last year. The rise was mainly due to the full operation of Tsuen Wan Red Seasons for the year ended 31 December 2011.

Utilities Expenses

The utilities expenses for the year ended 31 December 2011 amounted to approximately HK$19,027,000, an increase of approximately 21% as compared to last year. The climb was in line with the increase of revenue of the Group for the year ended 31 December 2011.

Other Operating Expenses

The other operating expenses represent mainly one-off listing expenses and expenses incurred for the Group's operation, including expenses from kitchen consumables, laundry, cleaning, repair and maintenance, etc. The other operating expenses for the year ended 31 December 2011 amounted to approximately HK$20,206,000, representing an increase of approximately 42% compared to the previous year. This rise was primarily due to the one-off listing expenses of approximately HK$4,343,000 and the expenses incurred in relation to full operation of Tsuen Wan Red Seasons during the year ended 31 December 2011.

Profit Before Tax and Margin

The profit before tax for the year ended 31 December 2011 amounted to approximately HK$27,975,000 an increase of approximately 94% compared to last year. The profit margin improved from approximately 7% for the year ended 31 December 2010 to approximately 10% for the year ended 31 December 2011.

Eliminating the effect of one-off listing expenses, (i) the profit before tax for the year ended 31 December 2011 rocketed by approximately 124% compared to the previous year; and (ii) the margin increased accordingly to approximately 12% for the year ended 31 December 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, the Group successfully operated its restaurants. Shatin Red Seasons and Tsuen Wan Red Seasons, the newly opened restaurants of the Group, achieved a business turnaround. Another two brands, Plentiful Delight Banquet and Red Royalty Banquet, were well-accepted by customers. The management of the Group resolved to improve the operating efficiency and control its expenditures. The Group increased bulk purchases of food raw materials from the suppliers in order to enjoy a larger discount. The Group reviewed the work allocation of the staff from time to time to enhance 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 profit before tax and margin.

Liquidity, Financial and Capital Resources

Capital structure

Details of the capital structure and capital risk management are set out in the Note 5 to the consolidated financial statements.

Cash position

As at 31 December 2011, the carrying amount of the Group's bank balances and cash was approximately HK$47,181,000 (31 December 2010: approximately HK$16,968,000), representing an increase of 178% as compared to that as at 31 December 2010.

The pledged bank deposit as at 31 December 2010 and 2011 was pledged to a bank for the issuance of a letter of guarantee in favour of the Group.

Bank Borrowing and charges on the Group's assets

Details of bank borrowing and charges on the Group's assets as at 31 December 2011 are set out in Note 23 to the consolidated financial statements.

Gearing ratio

The gearing ratio is measured by net debt (aggregate of bank borrowing and amounts due to directors less bank balances and cash) divided by the total of net debt and total equity. Gearing ratio is not applicable to the Group as at 31 December 2010 and 2011 as the amount of the Group's bank balances and cash is larger than the aggregate of bank borrowing and amounts due to directors.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 year ended 31 December 2011. Save for the business plan as disclosed in the Annual Report, there is no plan for material investments or capital assets as at 31 December 2011.

Employees and Emolument Policies

The Group had 615 employees (including Directors) as at 31 December 2011 (2010: 502). The Group recruits and promotes individuals based on their performance and development potential in the positions held. 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. The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to the Company's operating results, market competitiveness, individual performance and achievement. In addition, the Group adopted a share option scheme for eligible employees (including Directors) to provide incentives to participants for their contributions and continuing efforts to promote the interests of the Group.

Prospects

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

Spurred by the proven success of the Red Seasons restaurants concept in the New Territories, the first restaurant under the same brand on Hong Kong Island was opened in March 2012. The opening of the Group's seventh restaurant located at The Zenith, Wanchai, plus extensive promotion and menu enhancement, is believed to have raised the brand awareness and reinforced customers' loyalty. The Group is continuing to look for suitable sites with high traffic flow and reasonable rentals to expand its restaurant network. Meanwhile, the Group is also continuously developing specialty dishes as well as consistently providing quality services to customers so as to solidify the Group's market position.

Altogether, the three brands of the Group have different positioning and target customers which the management believes constitutes significant market differentiation and addresses the needs of various customers thereby enlarges its market share.

On the operations front, the Group will proactively monitor the rising costs in food, labour and rentals in order to raise the overall operational efficiencies. For example, while realising the expansion strategy, the Group would further maximise economies of scale to attain larger discounts from suppliers through bulk purchases.

The Group will continue expanding its scope of business, including opening more local restaurants proactively, extending the dining business to Mainland China and evaluating prospects in other food-related businesses in order to sustain the Group's growth and deliver satisfactory returns to its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Comparison of Business Plan with Actual Business Progress

The following is a comparison of the Group's business plan as set out in the Company's prospectus dated 30 June 2011 (the "Prospectus") with actual business progress for the year ended 31 December 2011.

	Business plan up to 31 December 2011 as set out in the Prospectus	Actual business progress up to 31 December 2011
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 Aroma Restaurant in early 2013, with an expected saleable area of approximately 1,000 square meters.	The Group has identified an optimal location in Wan Chai and accelerated the network expansion plan. The Group's seventh restaurant under the brand of Red Seasons Aroma Restaurant 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 is in the process of identifying the new business.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

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.

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.

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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

The net proceeds from the Placing from the date of listing (i.e.8 July 2011) (the "Listing Date"), to 31 December 2011 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 31 December 2011 *HK$ million*	**Actual use of proceeds from the Listing Date to 31 December 2011** *HK$ million*
– Diversify service and product offerings with the implementation of a new branding strategy *(Note)*	24.9	30.6
– Upgrade existing restaurant facilities	0.3	0.3
– Strengthen staff training	0.8	0.1
– Enhance marketing activities to promote brand awareness	1.4	0.3
– Formation of strategic partnerships with reputable partners in Hong Kong and China	0.5	–
– Working capital	1.2	1.2
Total	29.1	32.5

Note: Actual use of proceeds was higher as compared to the adjusted net proceeds which was mainly attributable to the deposit for renovation and equipments relating to the early opening of the Group's seventh restaurant under the brand of Red Seasons Aroma Restaurant 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.

DIRECTORS' REPORT

The Board is pleased to present their first annual report together with the audited financial statements of the Group for the year ended 31 December 2011 after its listing on the GEM of the Stock Exchange on 8 July 2011.

Group Reorganisation

The Company is a limited liability company incorporated in the Cayman Islands on 10 February 2011.

Under a group reorganisation scheme (the "Reorganisation") in June 2011 to rationalise the structure of the Group in preparation for the initial public offering of the shares of the Company on GEM of the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group. Further details of the Reorganisation are set out in the Prospectus.

The shares of the Company have been listed on GEM of the Stock Exchange since the Listing Date.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 33 to the financial statements. The Group is principally engaged in the operation of a chain of Chinese restaurants in Hong Kong (the "Chinese Restaurants Business").

Segmental Information

The Group's segment information and revenue for the year ended 31 December 2011 are set out in Notes 7 and 8 to the consolidated financial statements respectively.

Results and Dividends

The results of the Group for the year ended 31 December 2011 and the state of affairs of the Company and of the Group as at that date are set out in the consolidated financial statements on pages 34 to 81.

The Directors do not recommend the payment of final dividends for the year ended 31 December 2011. Details of dividends paid during the year ended 31 December 2011 are set out in Note 13 to the consolidated financial statements.

Annual General Meeting

The 2012 annual general meeting (the "2012 AGM") will be held on Friday, 11 May 2012. Shareholders should refer to details regarding the 2012 AGM in the circular of the Company of 30 March 2012 and the notice of meeting and form of proxy accompanying thereto.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in Note 32 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 December 2011, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$73,940,000. The amount of HK$73,940,000 includes the Company's share premium and capital reserve, net of accumulated loss which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Property, Plant and Equipment and Investment Property

Details of the movements in property, plant and equipment and investment property of the Group during the year are set out in Notes 15 and 16 to the consolidated financial statements, respectively.

Summary of Financial Information

A summary of the published results and assets, liabilities and minority interests of the Group, as extracted from the consolidated financial statements, is set out on page 82 of this Annual Report. This summary does not form part of the audited financial statements.

Share Capital

Details of the Company's share capital and movements during the year are set out in Note 26 to the consolidated financial statements.

Pre-emptive Rights

There are no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

DIRECTORS' REPORT

Major Customers and Suppliers

Due to the nature of the Group's business, the majority of its customers consist of walk-in customers. As such, the Directors consider that it is not practicable to identify the five largest customers of the Group.

The information in respect of the Group's purchases attributable to the major suppliers during the year is as follows:

	Percentage of the Group's total purchases
The largest supplier	14%
Five largest suppliers in aggregate	40%

Save for the purchases from Wong Yuen Hong Fresh Food Company Limited (which is owned as to 50% by Mr. Wong KM and 50% by Ms. Lau LY), none of the Directors, their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interest in the major suppliers disclosed above.

Directors

The Directors during the year and up to the date of this Annual Report are as follows:

Executive Directors

Mr. WONG KM *(Chairman)*	appointed on 10 February 2011
Ms. LAU LY *(Chief executive officer)*	appointed on 10 February 2011

Independent Non-Executive Directors

Mr. YU Ka Ho	appointed on 25 June 2011
Mr. LI Fu Yeung	appointed on 25 June 2011
Ms. CHIU Man Yee	appointed on 25 June 2011

Pursuant to article 83(3) of the Company's articles of association, all of the Directors as mentioned above shall retired and all retired Directors except Mr. Yu Ka Ho, being eligible, offer themselves for re-election at the 2012 AGM.

Directors' and Senior Management's Biographies

Biographical details of the Directors and the senior management of the Group are set out on pages 4 to 5 of this Annual Report.

Directors' Service Contracts

Each of the executive Directors has entered into a service agreement with the Company pursuant to which he or she has agreed to act as an executive Director for a fixed term of one year with effect from the Listing Date and will not receive any remuneration for holding his or her office as an executive Director. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless either party has given at least one month's written notice of non-renewal before the expiry of the then existing term.

The Company has issued an appointment letter to each of the independent non-executive Directors for a fixed term of one year commencing from the Listing Date. The appointment can be terminated by either the Company or the independent non-executive Director giving to the other party not less than one month's prior written notice. The Company and the independent non-executive Director shall discuss whether to renew the term of appointment of the independent non-executive Director prior to the expiration of the relevant term of appointment. If either party disagrees with the renewal of the term of appointment of the independent non-executive Director, such party shall notify the other party in writing at least two months prior to the expiration of the relevant term of appointment. Subject to the consent of both parties, the term of appointment of the independent non-executive Director may be renewed automatically for one year on expiry of the initial term and for successive terms of one year each commencing on expiry of the then current term.

Save as disclosed above, none of the Directors being proposed for re-election at the 2012 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Independence Confirmation

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all of the independent non-executive Directors is independent.

Emoluments of Directors and Five Highest Paid Individuals

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in Note 12 to the consolidated financial statements.

Management Contracts

As at 31 December 2011, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

DIRECTORS' REPORT

Emolument Policy

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.

The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to the Company's operating results, market competitiveness, individual performance and achievement.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in Note 31 to the consolidated financial statements.

Share Option Scheme

The Company's existing share option scheme (the "Share Option Scheme") was approved for adoption on 9 December 2011 and valid for the next ten years.

The Company had not granted any option under the Share Option Scheme since its adoption.

As at 31 December 2011, the Company had not granted any right to subscribe for equity or debt securities of the Company to any Directors or chief executive of the Company or their spouse or children under 18 years of age.

Directors' Interests in Contract

Saved as disclosed under the section "Connected Transactions'' below, no contract of significance to which the Company, or any of its holding company or subsidiaries was a party, and in which a Directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interests in Competing Business

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 year or at 31 December 2011.

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares or Debentures of the Company and Its Associated Corporations

As at 31 December 2011, 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 KM *(Note 1)*	Interest in controlled corporation	240,000,000	75%
Ms. Lau LY *(Note 2)*	Interest in controlled corporation	240,000,000	75%

Notes:

(1) Mr. Wong KM is deemed to be interested in all the shares held by KMW Investments Limited by virtue of the SFO.

(2) Ms. Lau LY 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 31 December 2011, 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.

Directors' 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 year ended 31 December 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.

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 31 December 2011, other than a Director 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 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 KM and 50% by Ms. Lau LY.

Saved as disclosed above, as at 31 December 2011, 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 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.

DIRECTORS' REPORT

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 year ended 31 December 2011.

Compliance Adviser's Interest in the Company

As at 31 December 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.

Connected Transactions

Significant related party transactions entered into by the Group during the year ended 31 December 2011 are disclosed in Note 29 to the consolidated financial statements. Some of these transactions also constitute connected transactions under the GEM Listing Rules, as identified below.

Non-exempt Continuing Connected Transactions

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

Shatin Lease Agreement

Pursuant to a lease entered into between Red Seasons Corporation Limited ("RS Corporation"), an indirectly wholly owned subsidiary, and U Investments Limited ("U Investments") on 1 January 2010 (the "**Shatin Lease Agreement**"), RS Corporation had agreed to lease from U Investments premises situated at Shop No. 33, Level 1 and Level 2, Garden Rivera, Nos. 20-30 Tai Chung Kiu Road, Shatin, New Territories, Hong Kong and a covered carparking space (the "**Shatin Property**") at a monthly rent of HK$250,000 for the period from 1 January 2010 to 31 December 2014. The Shatin Property has been used by RS Corporation as the restaurant premises of Shatin Red Seasons.

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

The annual cap for the rent payable by RS Corporation to U Investments for the Shatin Property for each of the three years ending 31 December 2013 was HK$3,000,000.

DIRECTORS' REPORT

During the year ended 31 December 2011, the aggregate rent paid by RS Corporation to U Investments for the Shatin Property amounted to HK$3,000,000. Taking into account for the rent free period included in the Shatin Lease Agreement, the operating lease rental of HK$2,900,000 was charged to the profit or loss during the year under review.

Red Royalty Lease Agreement

Pursuant to a lease entered into between Gayety Limited ("Gayety"), an indirectly wholly owned subsidiary, and Goldex Management Limited ("Goldex") on 25 November 2011 (the "**Red Royalty Lease Agreement**"), Gayety had agreed to lease from Goldex premises situated at First Floor Commercial Unit plus carparking space Nos. L5 on Ground Floor and 97, 98, 99 & 100 on First Floor, Manhattan Plaza, No. 23 Sai Ching Street, Yuen Long, New Territories, Hong Kong (the "**Red Royalty Property**") at a monthly rent of HK$580,000 for the period from 1 January 2012 to 31 December 2016. The lease term could be commenced earlier subject to the consent from both Gayety and Goldex. The Red Royalty Property has been used by Gayety as the restaurant premises of Red Royalty Banquet.

Goldex is principally engaged in property investment in Hong Kong. Mr. Wong KM and Ms. Lau LY, both the Directors and Controlling Shareholders, are connected persons of the Company under the GEM Listing Rules. As each of Mr. Wong KM and Ms. Lau LY holds to 50% of the issued share capital of Goldex, Goldex is an associate of each of Mr. Wong KM and Ms. Lau LY and is a connected person of the Company. Therefore, the Red Royalty Lease Agreement constitutes a continuing connected transaction of the Company under the GEM Listing Rules.

The annual cap for the rent payable by Gayety to Goldex for the Red Royalty Property for each of the five years ending 31 December 2016 was HK$6,960,000.

During the year ended 31 December 2011, the aggregate rent paid by Gayety to Goldex for the Red Royalty Property was approximately HK$130,000.

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

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

DIRECTORS' REPORT

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

Wong Yuen Hing is principally engaged in the wholesale and retail of pork in Hong Kong. U Cellar is principally engaged in the business of supply and retail of wine in Hong Kong. Mr. Wong KM and Ms. Lau LY, both being executive Directors and Controlling Shareholders, are connected persons of the Company under the GEM Listing Rules. As each of Mr. Wong KM and Ms. Lau LY holds as to 50% of the issued share capital of Wong Yuen Hing, Wong Yuen Hing is an associate of each of Mr. Wong KM and Ms. Lau LY, and is a connected person of the Company. As Ms. Wong Tai Ying, the daughter of Ms Lau LY, owns 100% interest in U Cellar, U Cellar is an associate of Ms. Lau LY and is a connected person of the Company. Therefore, the transactions contemplated under the Pork Supply Agreement and the Wine Supply Agreement constitute continuing connected transactions of the Company under the GEM Listing Rules.

The term of each of the Pork Supply Agreement and the Wine Supply Agreement is from 25 June 2011 to 31 December 2013.

The annual cap for the amount payable by the Group to Wong Yuen Hing for the purchase of pork under the Pork Supply Agreement for the three years ending 31 December 2013 was HK$10,000,000, HK$12,500,000 and HK$15,000,000, respectively.

The annual cap for the amount payable by the Group to U Cellar for the purchase of wine under the Wine Supply Agreement was HK$500,000 for each of the three years ending 31 December 2013.

During the year ended 31 December 2011, the aggregate amounts paid by the Group to Wong Yuen Hing for the purchase of pork under the Pork Supply Agreement and U Cellar for the purchase of wine under the Wine Supply Agreement were approximately HK$8,431,000 and HK$469,000 respectively.

Events after the Reporting Period

Details of the significant events after the reporting period of the Group are set out in Note 34 to the consolidated financial statements.

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 throughout the year under review. The Company was not aware of any non-compliance during the period from the Listing Date to 31 December 2011.

Code on Corporate Governance Practices

The Board considers that the Company has compiled with the code provisions in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules during the period from the Listing Date to 31 December 2011.

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" section of this Annual Report.

Sufficiency of Public Float

As at the date of this Annual Report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the GEM Listing Rules.

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 31 December 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.

During the year, the Audit Committee performed duties including reviewing the Group's financial statements, audit findings, external auditor's independence and the Group's accounting principles and practices.

The Group's annual results for the year ended 31 December 2011 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the financial statements of the Company and the Group for the year ended 31 December 2011 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

Auditors

PricewaterhouseCoopers was the reporting accountants of the Company for the purpose of the listing of the Company's shares on the GEM of the Stock Exchange. PricewaterhouseCoopers resigned as auditors of the Company on 21 October 2011 and had not commenced any audit work on the consolidated financial statements of the Company for the year ended 31 December 2011.

SHINEWING (HK) CPA Limited ("SHINEWING") was appointed as auditors of the Company on 21 October 2011 and the consolidated financial statements for the year ended 31 December 2011 was audited by SHINEWING. A resolution for the re-appointment of SHINEWING as auditors of the Company will be proposed at the 2012 AGM.

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

Hong Kong, 23 March 2012

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's Annual Report for the year ended 31 December 2011.

Corporate Governance Practices

The Group is committed to achieving high standard of corporate governance to safeguard the interests of all shareholders and to enhance corporate value and accountability.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 of the GEM Listing Rules. Before the Listing Date, the CG Code was not applicable to the Company. During the period from the Listing Date to 31 December 2011, the Company has complied with the code provisions set out in the CG Code.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the statutory and the CG Code and align with the latest developments.

Board of Directors

Board Composition

The Board of the Company currently comprises five members, of which two are executive Directors namely Mr. Wong KM (Chairman) and Ms. Lau LY (Chief executive officer ("CEO")) and three are independent non-executive Directors namely Mr. Yu Ka Ho, Mr. Li Fu Yeung and Ms. Chiu Man Yee. Each of the Directors' respective biographical details is set out in the section headed "Biographical Details of the Directors and Senior Management" of this Annual Report. The Board included at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise at all times during the year ended 31 December 2011. None of the members of the Board is related to one another except Mr. Wong KM is a spouse of Ms. Lau LY.

Role and Function

The Board is responsible for overall management of the Company's business, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

Delegation by the Board

The Board also reserves for its decisions on all major matters of the Company, including the approval and monitoring of major policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are delegated to the executive Directors and senior management. The delegated functions and work tasks are reviewed from time to time. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

CORPORATE GOVERNANCE REPORT

The independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board.

Board Meetings

Notice of at least 14 days have been given to all Directors for all regular Board meetings and the Directors can include matters for discussion in the agenda if necessary. Agenda and accompanying Board papers in respect of regular Board meetings are sent out in full to all Directors within reasonable time before the meeting. Draft minutes of all Board meetings are circulated to Directors for comment within a reasonable time prior to confirmation.

Minutes of Board meetings and meetings of Board committees are kept by duly appointed secretaries of the respective meetings and all Directors have access to board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

Number of Meetings and Attendance Records

During the period from the Listing Date to 31 December 2011, 6 Board meetings were held, out of which 2 were regular Board meetings for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The attendance records of each Director at the Board meetings and Board Committees' Meetings are set out in the table below:

	Meetings attended/Eligible to attend		
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Directors			
Mr. Wong KM	6/6	4/4	–
Ms. Lau LY	6/6	4/4	–
Independent non-executive Directors			
Mr. Yu Ka Ho	6/6	4/4	–
Mr. Li Fu Yeung	6/6	4/4	–
Ms. Chiu Man Yee	6/6	4/4	–

CORPORATE GOVERNANCE REPORT

Chairman and CEO

The roles of the Chairman and CEO are segregated and are held by Mr. Wong KM and Ms. Lau LY respectively to ensure their respective independence, accountability and responsibility. The Chairman is responsible for the Group's strategic planning and the management of the operations of the Board, while the CEO takes the lead in the Group's operations and business development. There is a clear division of responsibilities between the Chairman and CEO of the Company which provides a balance of power and authority.

Independent non-executive Directors

The independent non-executive Directors are appointed for a fixed term of one year commencing from the Listing Date. The appointment can be terminated by either the Company or the independent non-executive Director giving to the other party not less than one month's prior written notice. The Company and the independent non-executive Director shall discuss whether to renew the term of appointment of the independent non-executive Director prior to the expiration of the relevant term of appointment. If either party disagrees with the renewal of the term of appointment of the independent non-executive Director, such party shall notify the other party in writing at least two months prior to the expiration of the relevant term of appointment. Subject to the consent of both parties, the term of appointment of the independent non-executive Director may be renewed automatically for one year on expiry of the initial term and for successive terms of one year each commencing on expiry of the then current term. Also, the independent non-executive Directors are subject to re-election on retirement by rotation at the annual general meeting in accordance with the Company's articles of association.

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the rule 5.09 of the GEM Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the GEM Listing Rules for the period from the Listing Date to 31 December 2011.

Board Committee

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 CG Code 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 31 December 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.

During the year ended 31 December 2011, 4 meetings of Audit Committee were held for, inter alia, reviewing the Group's interim results and interim report for the six months ended 30 June 2011, the Group's third quarterly results and third quarterly report for the nine months ended 30 September 2011, the financial reporting and compliance procedures and considering the change of auditors of the Company and a continuing connected transaction.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Company established a remuneration committee pursuant to a resolution of the Directors passed on 25 June 2011 with written terms of reference in compliance with paragraph B1.1 and paragraph B1.3 of the CG Code as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group ; review performance based remuneration; and ensure none of the Directors determine their own remuneration. As at 31 December 2011, the remuneration committee consists of three members, namely Ms. Lau LY, Mr. Yu Ka Ho and Mr. Li Fu Yeung. Ms. Lau LY is the chairman of the remuneration committee.

Details of the remuneration of Directors are set out in Note 12 to the consolidated financial statements. During the period from the Listing Date to 31 December 2011, none of the remuneration committee was held.

Nomination of Directors

As at 31 December 2011, the Company has not established a nomination committee. All Directors of the Company are responsible for making recommendations to the Board on nomination and appointment of Directors and Board succession, with a view to appoint to the Board individuals with suitable experience and capabilities to maintain and improve the competitiveness of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, including the independence status in the case of an independent non-executive Director, the Company's needs and other relevant statutory requirements and regulations.

After the Listing Date, no additional Director was appointed, therefore, no Board meeting was held to carry out the selection process during the period from the Listing Date to 31 December 2011.

Directors' Securities Transactions

The Group adopted the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions in securities of the Company. Upon the Company's specific enquiry, each Director had confirmed that during the period from the Listing Date to 31 December 2011, they had fully complied with the required standard of dealings and there was no event of non-compliance.

Auditor's Remuneration

During the year ended 31 December 2011, the fees paid/payable to PricewaterhouseCoopers, the resigned auditor of the Company and SHINEWING (HK) CPA Limited, the auditor of the Company, in respect of audit and non-audit services provided by them to the Group were as follows:

	2011 ***HK$*** **PricewaterhouseCoopers**	**2011** ***HK$*** **SHINEWING**
Audit services	–	562,000
Non-audit services		
Reporting accountants for the Company's listing exercise	2,208,000	–
Other services	–	38,000
Total	2,208,000	600,000

Internal Controls

The Board has overall responsibility for the system of internal controls of the Group and for reviewing its effectiveness. During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has delegated to executive management the implementation of the system of internal controls and reviewing of all relevant financial, operational, compliance controls and risk management function within an established framework.

Directors' Responsibility Statement

The Board is responsible for the preparation of the financial statements. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

Investor Relations and Communication

The Board recognizes the importance of good communications with all shareholders. The Company encourages two-way communications with both its institutional and private investors. Extensive information about the Company's activities is provided in its Interim Report, Quarterly Report and this Annual Report, which are sent to shareholders of the Company. The annual general meeting provides a valuable forum for direct communication between the Board and the Company's shareholders. The Chairman of the Board as well as Chairmen of the Board Committees together with the external auditor will present to answer shareholders' questions. The annual general meeting circulars are distributed to all shareholders at least 21 clear days before the meeting. Separate resolutions are proposed at general meetings on each separate issue and voting of which are taken by poll pursuant to the GEM Listing Rules. Any results of the poll are published on the Company's website. All corporate communication with shareholders will be posted on the Company's website for shareholders' information.

Changes after Reporting Period

On 23 March 2012, in order to comply with the forthcoming amendments to the GEM Listing Rules) which will be effective on 1 April 2012, the chairman and members of the remuneration committee have changed and the nomination committee has been established. Details of such changes have been disclosed in the announcement of the Company dated 23 March 2012.

INDEPENDENT AUDITOR'S REPORT

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF GAYETY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Gayety Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 81, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

The consolidated financial statements of the Group for the year ended 31 December 2010 were audited by another auditor who expressed an unqualified opinion on those statements on 30 June 2011.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lo Wa Kei
Practising Certificate Number: P03427

Hong Kong
23 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
Turnover	8	**279,847**	210,320
Other income	8	**540**	1,332
Cost of inventories consumed		**(104,335)**	(75,558)
Employee benefits expenses		**(75,304)**	(61,784)
Depreciation		**(9,258)**	(7,718)
Operating lease rentals and related expenses		**(23,796)**	(22,101)
Utilities expenses		**(19,027)**	(15,702)
Other (losses) gains, net	9	**(111)**	564
Other operating expenses		**(20,206)**	(14,229)
Finance costs	10	**(375)**	(669)
Profit before tax	9	**27,975**	14,455
Income tax expenses	11	**(5,069)**	(3,177)
Profit and total comprehensive income for the year		**22,906**	11,278
Attributable to:			
Owners of the Company		**22,904**	9,960
Non-controlling interests		**2**	1,318
		22,906	11,278
Earnings per share			
Basic and diluted	14	**0.82 cents**	0.42 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	15	**49,743**	21,938
Investment property	16	**5,878**	–
Rental deposits	18	**7,070**	5,387
Prepayment for acquisition of property, plant and equipment		**2,735**	429
Deferred tax assets	24	**297**	999
		65,723	28,753
Current assets			
Inventories	17	**6,867**	3,393
Trade receivables	18	**1,445**	459
Prepayments, deposits and other receivables	18	**7,902**	7,974
Amount due from a related company	29	**270**	670
Amounts due from directors	29	**–**	2,604
Amount due from a non-controlling shareholder of a subsidiary	19	**–**	1,100
Income tax recoverable		**839**	281
Financial assets at fair value through profit or loss	20	**–**	905
Pledged bank deposit	21	**1,500**	1,500
Bank balances and cash	21	**47,181**	16,968
		66,004	35,854
Current liabilities			
Trade payables	22	**11,667**	9,769
Other payables, accruals and deposits received		**24,780**	12,684
Amounts due to directors	29	**–**	12,988
Amounts due to non-controlling shareholders of a subsidiary	19	**–**	4
Income tax payable		**690**	6,246
Bank borrowing, secured	23	**2,900**	–
		40,037	41,691
Net current assets (liabilities)		**25,967**	(5,837)
Total assets less current liabilities		**91,690**	22,916
Non-current liabilities			
Provision for reinstatement costs	25	**2,325**	2,209
Deferred tax liabilities	24	**544**	33
		2,869	2,242
		88,821	20,674

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	NOTE	2011 HK$'000	2010 HK$'000
Capital and Reserves			
Share capital	26	**3,200**	–
Reserves		**83,612**	18,667
Equity attributable to owners of the Company		**86,812**	18,667
Non-controlling interests		**2,009**	2,007
		88,821	20,674

The consolidated financial statements on pages 34 to 81 were approved and authorised for issue by the board of directors on 23 March 2012 and are signed on its behalf by:

WONG KWAN MO
Director

LAU LAN YING
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company						
	Share capital HK$'000	Share premium HK$'000	Capital reserve (Note) HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2010	–	–	486	9,709	10,195	737	10,932
Profit for the year and total comprehensive income for the year	–	–	–	9,960	9,960	1,318	11,278
Dividends *(Note 13)*	–	–	–	(1,488)	(1,488)	(48)	(1,536)
At 31 December 2010 and 1 January 2011	**–**	**–**	**486**	**18,181**	**18,667**	**2,007**	**20,674**
Profit for the year and total comprehensive income for the year	**–**	**–**	**–**	**22,904**	**22,904**	**2**	**22,906**
Issue of share on incorporation	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Reorganisation *(Note 26(b))*	**380**	**–**	**(380)**	**–**	**–**	**–**	**–**
Capitalisation issue of shares *(Note 26(c))*	**2,020**	**(2,020)**	**–**	**–**	**–**	**–**	**–**
Issue of new shares *(Note 26(d))*	**800**	**79,200**	**–**	**–**	**80,000**	**–**	**80,000**
Transaction costs attributable to issue of new shares	**–**	**(11,759)**	**–**	**–**	**(11,759)**	**–**	**(11,759)**
Dividends *(Note 13)*	**–**	**–**	**–**	**(23,000)**	**(23,000)**	**–**	**(23,000)**
At 31 December 2011	**3,200**	**65,421**	**106**	**18,085**	**86,812**	**2,009**	**88,821**

Note: 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**27,975**	14,455
Adjustments for:		
Depreciation	**9,258**	7,718
Finance costs	**375**	669
Loss on disposal of financial assets at fair value through profit or loss	**62**	96
Loss (gain) on disposal of property, plant and equipment	**49**	(740)
Bank interest income	**(145)**	–
Fair value loss on financial assets at fair value through profit or loss	**–**	80
Operating cash flows before movements in working capital	**37,574**	22,278
Increase in inventories	**(3,474)**	(1,783)
(Increase) decrease in trade receivables	**(986)**	29
Increase in prepayments, deposits and other receivables	**(1,611)**	(7,688)
Increase in pledged bank deposits	**–**	(1,500)
Increase in trade payables	**1,898**	2,265
Increase in other payables, accruals and deposits received	**12,096**	5,356
Cash generated from operations	**45,497**	18,957
Interest paid	**(259)**	(588)
Hong Kong Profits Tax paid	**(9,970)**	(1,892)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**35,268**	16,477
INVESTING ACTIVITIES		
Decrease in amounts due from directors	**2,604**	9,603
Decrease (increase) in amount due from a non-controlling shareholder of a subsidiary	**1,100**	(1,100)
Proceeds from disposal of financial assets at fair value through profit or loss	**843**	–
Decrease (increase) in amount due from a related company	**400**	(462)
Interest received	**145**	–
Purchases of property, plant and equipment	**(36,943)**	(14,859)
Purchase of investment property	**(2,978)**	–
Prepayment for acquisition of property, plant and equipment	**(2,475)**	(13)
Proceeds from disposal of property, plant and equipment	**–**	1,503
Decrease in financial assets at fair value through profit or loss	**–**	893
NET CASH USED IN INVESTING ACTIVITIES	**(37,304)**	(4,435)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011	2010
	HK$'000	*HK$'000*
FINANCING ACTIVITIES		
Proceeds from issue of shares	**80,000**	–
Dividends paid	**(23,000)**	(1,536)
Payment of transaction costs attributable to issue of new shares	**(11,759)**	–
(Decrease) increase in amounts due to directors	**(12,988)**	9,593
Decrease in amounts due to non-controlling shareholders of a subsidiary	**(4)**	(671)
Repayment of borrowings	**–**	(16,262)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	**32,249**	(8,876)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**30,213**	3,166
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**16,968**	13,802
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**47,181**	16,968

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

Gayety Holdings Limited (the "Company") was incorporated in the Cayman Islands on 10 February 2011 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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. The Company's immediate and ultimate holding company at the date of these financial statements is KMW Investments Limited ("KMW"), a company incorporated in the British Virgin Islands ("BVI").

Pursuant to a group reorganisation (the "Reorganisation") of the Company, Gayety Holdings Limited and its subsidiaries (collectively referred to as the "Group") completed in June 2011 to rationalise the Group's structure in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the Company's prospectus dated 30 June 2011 (the "Prospectus"). The Company's shares have been listed on the GEM of the Stock Exchange since 8 July 2011.

Since all entities which took part in the Reorganisation were under common control of a group of ultimate equity shareholders, the Group is regarded as a continuing entity resulting from the reorganisation of entities under common control. These financial statements have been prepared on the basis that the current group structure had been in existence at the beginning of the earliest period presented. Accordingly, the consolidated results, assets and liabilities of the Group for the years ended 31 December 2010 and 2011 include the results, assets and liabilities of the Company and its subsidiaries with effect from 1 January 2010 or, if later, since their respective dates of incorporation, as if the current group structure had been in existence as at that date. All material intra-group transactions and balances have been eliminated on consolidation.

The Company's principal activity during the year was investment holding. The principal activities of the subsidiaries are set out in Note 33.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the consolidated financial statements for the year ended 31 December 2011, the Group has adopted all the revised HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("INT(s)") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial period beginning on 1 January 2011.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[4]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 (Amendment)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (Revised)	Employee Benefits[4]
HKAS 27 (Revised)	Separate Financial Statements[4]
HKAS 28 (Revised)	Investments in Associates and Joint Ventures[4]
HKAS 32 (Amendments)	Presentation – Offsetting Financial Assets and Financial Liabilities[5]
HK(IFRIC) – INT 20	Stripping Costs in the Production Phase of a Surface Mine[4]

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 July 2012.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 7 (Amendments) – Transfers of Financial Assets

The amendments to HKFRS 7 extend the disclosure requirements for the transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors of the Company anticipate that the application of the amendments to HKFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

HKAS 32 (Amendments) – Offsetting Financial Assets and Financial Liabilities and Amendments to HKFRS 7 (Disclosures) – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirement) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 – Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 9 – Financial Instruments (Continued)

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition under HKFRS 9, entities may made an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised standards on consolidation and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these standards are described below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and revised standards on consolidation and disclosures (Continued)

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial information and HK (SIC) – Interpretation 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors of the Company anticipate that these standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The adoption of these standards may have significant impact on amounts reported in the consolidated financial statements. However, the directors of the company have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

HKFRS 13 – Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad. It applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under *HKFRS 7 Financial Instruments – Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKAS 1 (Amendments) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for the annual period beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Other than disclosed above, the directors of the Company anticipate that the application of other new and revised standards and amendments will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules") and the Hong Kong Companies Ordinance. The principal accounting policies are set out below.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property, which are measured at fair values as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interest even if this result in the non-controlling interest having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Investment in a subsidiary

Investment in a subsidiary is carried on the statement of financial position of the Company at cost less impairment. Provision for impairment in a subsidiary is made when the recoverable amount of the subsidiary is lower than the Company's respective cost of investment.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services rendered in the normal course of business, net of discounts.

Revenue from restaurant operation is recognised when the catering services are rendered to customers.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Management fee income is recognised when services are rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment held for use in the supply of services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment over their useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

As item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment property

Investment property is property held to earn rentals and/or for capital appreciation.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair values. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies transactions

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Employee benefits

(a) Defined contribution retirement benefit plans

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered services entitling them to the contributions.

(b) Employee entitlements

Employee entitlements to annual leave are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a first-in, first-out basis. Net realisable value represented the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sales.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Bank balances and cash in the statements of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Impairment of tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs to sell and value in use. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating unites for which a reasonable and consistent allocation basis can be identified.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL"), and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on effective interest basis for debt instruments.

Financial assets at FVTPL

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of a portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including rental deposits, trade receivables, deposits and other receivables, amounts due from a related company, directors and a non-controlling shareholder of a subsidiary, pledged bank deposits, and bank balances and cash) are carried at amortised cost, using the effective interest method, less any identified impairment losses (see the accounting policy in respect of impairment loss of financial assets below).

Interest income is recognised on an effective interest basis for debt instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, as well as observable changes in local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, deposits and other receivables, amounts due from a related company, directors and a non-controlling shareholder of a subsidiary, where the carrying amount is reduced through the use of an allowance account. When trade receivables, deposits and other receivables, amounts due from a related company, directors and a non-controlling shareholder of a subsidiary are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities (including trade payables, other payables, accruals, amounts due to directors, non-controlling shareholders of a subsidiary and secured bank borrowing) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discount) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for debt instruments.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of the ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to set ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value is material).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies which are described in Note 3, management are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives and impairment assessment of property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. The estimation of useful lives impacts the level of annual depreciation expenses recorded. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated statement of comprehensive income. As at 31 December 2011, the carrying amount of property, plant and equipment was approximately HK$49,743,000 (2010: HK$21,938,000). No impairment had been recognised as at 31 December 2011 (2010: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Estimated fair value of investment property

Investment property is carried in the consolidated statement of financial position as at 31 December 2011 at its fair value of HK$5,878,000 (2010: nil). The fair value was determined by the directors of the Company which involve certain assumption of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in fair value of the Group's investment property and corresponding adjustments to the amount of gain or loss reported in the consolidated statement of comprehensive income.

Provision for reinstatement costs

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

5. CAPITAL RISK MANAGEMENT

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, bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group expects to maintain a stable gearing ratio through the issue of new shares as well as the undertaking of new debts. Gearing ratio is measured by net debt (aggregate of bank borrowing and amounts due to directors less bank balances and cash) divided by the total of net debt and total equity.

Gearing ratio is not applicable to the Group as at 31 December 2011 and 2010 as the Group's bank balances and cash is larger than the aggregate of bank borrowing and amounts due to directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. FINANCIAL RISK MANAGEMENT

6a. Categories of financial instruments

	2011 *HK$'000*	2010 *HK$'000*
Financial assets		
Loans and receivables (including bank balances and cash)	**61,911**	31,658
Financial assets at FVTPL	**–**	905
	61,911	32,563
Financial liabilities		
Financial liabilities at amortised cost	**38,173**	35,064

6b. Financial risk management objectives and policies

The Group's major financial instruments include rental deposits, trade receivables, deposits and other receivables, amounts due from a related company, directors and a non-controlling shareholder of a subsidiary, financial assets at fair value through profit or loss, pledged bank deposit, bank balances and cash, trade payables, other payables and accruals, amounts due to directors and non-controlling shareholders of a subsidiary and secured bank borrowing. The risks associated with these financial instruments include market risk (interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6b. Financial risk management objectives and policies (Continued)

Market risk

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable rate bank borrowing, pledged bank deposit and bank balances. Details of the pledged bank deposit, bank balances and secured bank borrowing are disclosed in Notes 21 and 23 respectively. It is the Group's policy to keep its bank borrowing, and bank deposits and balances at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposure to interest rates on financial liabilities is detailed in the liquidity risk management section of this Note. The Group's interest rate risk is mainly concentrated on the fluctuation of Hong Kong Prime Rate ("Prime Rate") arising from the Group's secured bank borrowing.

Sensitivity analysis

An increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax by approximately HK$24,000 (2010: nil).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

Other price risk

The Group was exposed to price risk mainly through its investment in unlisted funds, which invested in listed equity instruments outside Hong Kong. The management managed this exposure by investing in funds that maintained a portfolio of investments with different risk and return profiles.

Equity price sensitivity analysis

The sensitivity analyses below had been determined based on the exposure to equity price risk at the end of the reporting period.

If the equity prices had been 10% higher/lower, the Group's profit after tax for the year ended 31 December 2010 would increase/decrease by HK$91,000. This was mainly due to the changes in fair value of financial assets at fair value through profit or loss.

The Group is not exposed to any price risk at 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6b. Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has concentration of credit risk as 36% (2010: 64%) and 70% (2010: 100%) of the total trade receivables was due from the largest counterparty and the three largest counterparties, respectively.

The credit risk for bank balances is considered minimal as such amounts are placed with banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of secured bank borrowing and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights within one year after the reporting date. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	At 31 December 2011		
	Within one year or on demand *HK$'000*	**Total undiscounted cash flow** *HK$'000*	**Carrying amount** *HK$'000*
Non-derivative financial liabilities			
Trade payables	**11,667**	**11,667**	**11,667**
Other payables and accruals	**23,606**	**23,606**	**23,606**
Bank borrowing, secured *(Note i)*	**3,006**	**3,006**	**2,900**
	38,279	**38,279**	**38,173**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	At 31 December 2010		
	Within one year or on demand *HK$'000*	Total undiscounted cash flow *HK$'000*	Carrying amount *HK$'000*
Non-derivative financial liabilities			
Trade payables	9,769	9,769	9,769
Other payables and accruals	12,303	12,303	12,303
Amounts due to directors	12,988	12,988	12,988
Amounts due to non-controlling shareholders of a subsidiary	4	4	4
	35,064	35,064	35,064

Notes:

(i) Bank borrowing with a repayment on demand clause is included in the "within one year or on demand" time band in the above maturity analysis. At 31 December 2011, the aggregate undiscounted principal amount of this bank borrowing amounted to HK$2,900,000 (2010: nil). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the bank will exercise its discretionary right to demand immediate repayment. The directors of the Company believe that the bank borrowing will be repaid 10 years after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$3,337,000.

(ii) The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid price; and

- 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 of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term maturities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 31 December 2010, the Group's financial assets at fair value through profit or loss were valued using level 1 fair value measurements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. 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 of directors 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.

Information about major customers

None of the Group's customers contributed 10% or more of the Group's total revenue during each of the years ended 31 December 2011 and 2010.

8. TURNOVER AND OTHER INCOME

	2011	2010
	HK$'000	*HK$'000*
Turnover		
Chinese restaurants operations	**279,847**	210,320
Other income		
Sub-letting income	**350**	600
Bank interest income	**145**	–
Management fee income from a related company	**–**	670
Sundry income	**45**	62
	540	1,332

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

9. PROFIT BEFORE TAX

	2011	2010
	HK$'000	*HK$'000*
Profit before tax has been arrived at after charging (crediting):		
Other losses (gains), net		
Loss on disposal of financial assets at fair value through profit or loss	**62**	96
Fair value loss on financial assets at fair value through profit or loss	**–**	80
Loss (gain) on disposal of property, plant and equipment	**49**	(740)
	111	(564)
Staff costs (including directors' emoluments)		
Salaries, wages and allowances	**72,021**	59,184
Pension costs – defined contribution plans	**3,283**	2,600
	75,304	61,784
Auditors' remuneration	**600**	204
Kitchen consumables (included in other operating expenses)	**3,530**	3,593
Cleaning expenses (included in other operating expenses)	**1,624**	1,424
Operating lease rentals in respect of rented premises	**22,103**	20,655

10. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Finance cost on:		
Bank loans wholly repayable within five years	**244**	478
Bank overdrafts	**15**	110
Unwinding of discount on provision for reinstatement costs *(Note 25)*	**116**	81
	375	669

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

11. INCOME TAX EXPENSES

	2011 **HK$'000**	2010 HK$'000
Current tax:		
Current year provision	**3,706**	3,788
Underprovision in prior years	**150**	–
	3,856	3,788
Deferred tax *(Note 24)*	**1,213**	(611)
	5,069	3,177

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

The income tax expenses for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follow:

	2011 **HK$'000**	2010 HK$'000
Profit before tax	**27,975**	14,455
Tax at the domestic income tax rate of 16.5% (2010: 16.5%)	**4,616**	2,385
Tax effect of income not taxable for tax purpose	**(24)**	(121)
Tax effect of expenses not deductible for tax purpose	**1,057**	183
Utilisation of tax losses previously not recognised	**(730)**	–
Tax effect of tax losses not recognised	**–**	730
Underprovision in prior years	**150**	–
Income tax expenses	**5,069**	3,177

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) The emoluments paid or payable to the directors of the Company for the year ended 31 December 2011 were as follows:

	Fees	**Salaries and other benefits**	**Pension costs – defined contribution plans**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Mr. Wong Kwan Mo*	–	–	–	–
Ms. Lau Lan Ying*	–	–	–	–
Independent non-executive directors:				
Mr. Yu Ka Ho**	29	–	–	29
Mr. Li Fu Yeung**	29	–	–	29
Ms. Chiu Man Yee**	29	–	–	29
	87	–	–	87

None of the executive directors (2010: none of the directors) received any fees or emoluments in respect of their services to the Group during the year ended 31 December 2011.

* Appointed on 10 February 2011
** Appointed on 25 June 2011

(b) Employees' emoluments

The five individuals with the highest emoluments in the Group for the year ended 31 December 2011 and 2010 were all non-director employees. Their emoluments were as follows:

	2011	2010
	HK$000	*HK$000*
Salaries, wages and allowances	**1,499**	1,365
Pension costs – defined contributions plans	**47**	58
	1,546	1,423

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(b) Employees' emoluments (Continued)

The emoluments were within the following bands:

	Number of individuals	
	2011	2010
Nil to HK$1,000,000	**5**	5

During the two years ended 31 December 2011 and 2010, no emoluments were paid by the Group to the five highest paid individuals and directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company and the employees waived or agreed to waive any emoluments paid by the Group.

The remuneration of directors of the Company is determined by the remuneration committee having regard to the performance of individual and market trends.

13. DIVIDENDS

The directors do not recommend the payment of final dividends for the year ended 31 December 2011.

During the year ended 31 December 2011, interim dividends amounting to HK$23,000,000 were declared and paid by Gayety Limited, a subsidiary of the Company, to its shareholders prior to the Reorganisation.

During the year ended 31 December 2010, interim dividends of approximately HK$1,200,000, HK$216,000 and HK$120,000 were declared and paid by certain subsidiaries of the Company including Gayety Limited, Red Seasons Limited and Sencas Limited, to their then shareholders.

14. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the year ended 31 December 2011 is based on the profit attributable to owners of the Company of HK$22,904,000 (2010: HK$9,960,000) and the weighted average of 2,785,753,425 ordinary shares in issue (2010: 2,400,000,000 ordinary shares).

The weighted average number of shares in issue during the year ended 31 December 2011 represents the 240,000,000 shares (Note 26(a), (b) and (c)) in issue before the listing of shares of the Company on the GEM of the Stock Exchange as if such shares were issued on 1 January 2011, and the weighted average of 38,575,343 (Note 26(d)) shares issued upon the listing of the Company's shares on the GEM of the Stock Exchange, and the aggregate number of 278,575,343 shares were then adjusted for the share sub-division subsequent to the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. EARNINGS PER SHARE (CONTINUED)

The weighted average number of shares in issue during the year ended 31 December 2010 represents the 240,000,000 shares (Notes 26(a), (b) and (c)) in issue before the listing of shares of the Company on the GEM of the Stock Exchange as if such shares had been outstanding during the entire year of 2010, and the number of shares were then adjusted for the share sub-division subsequent to the end of the reporting period.

Diluted earnings per share for the year ended 31 December 2010 and 2011 is the same as the basic earnings per share as there were no dilutive potential ordinary shares outstanding during both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and building *HK$'000*	Leasehold improvements *HK$'000*	Air-conditioning *HK$'000*	Equipment and kitchen utensils *HK$'000*	Furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST							
At 1 January 2010	790	14,038	4,679	4,484	6,273	141	30,405
Additions	–	8,451	1,451	3,666	1,161	640	15,369
Disposals	(790)	–	–	(15)	–	(43)	(848)
At 31 December 2010 and 1 January 2011	**–**	**22,489**	**6,130**	**8,135**	**7,434**	**738**	**44,926**
Additions	**–**	**17,874**	**5,142**	**10,311**	**3,652**	**133**	**37,112**
Disposals	**–**	**–**	**–**	**–**	**(10)**	**(105)**	**(115)**
At 31 December 2011	**–**	**40,363**	**11,272**	**18,446**	**11,076**	**766**	**81,923**
ACCUMULATED DEPRECIATION							
At 1 January 2010	59	7,399	2,357	2,199	3,292	49	15,355
Provided for the year	20	3,807	1,081	1,351	1,387	72	7,718
Eliminated on disposals	(79)	–	–	–	–	(6)	(85)
At 31 December 2010 and 1 January 2011	**–**	**11,206**	**3,438**	**3,550**	**4,679**	**115**	**22,988**
Provided for the year	**–**	**4,611**	**1,328**	**1,698**	**1,500**	**121**	**9,258**
Eliminated on disposals	**–**	**–**	**–**	**–**	**(8)**	**(58)**	**(66)**
At 31 December 2011	**–**	**15,817**	**4,766**	**5,248**	**6,171**	**178**	**32,180**
CARRYING VALUES							
At 31 December 2011	**–**	**24,546**	**6,506**	**13,198**	**4,905**	**588**	**49,743**
At 31 December 2010	–	11,283	2,692	4,585	2,755	623	21,938

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Land and building	2.5%
Leasehold improvements	20% or over the lease term, whichever is shorter
Air-conditioning	20% or over the lease term, whichever is shorter
Equipment and kitchen utensils	20%
Furniture and fixtures	20%
Motor vehicles	20%

16. INVESTMENT PROPERTY

	2011	2010
	HK$'000	*HK$'000*
At fair value		
Balance at beginning of the year	**–**	–
Addition	**5,878**	–
Balance at the end of the year	**5,878**	–

The fair value of the Group's investment property under medium-term lease in Hong Kong as at 31 December 2011 was determined by the directors of the Company by reference to market evidence of transaction prices for similar properties in the same locations and conditions. No valuation has been performed by independent qualified valuer.

At 31 December 2011, the Group's investment property was pledged to a bank to secure the bank borrowing granted to the Group, details of which are set out in Note 23.

17. INVENTORIES

	2011	2010
	HK$'000	*HK$'000*
Food and beverages	**6,503**	2,813
Consumables	**364**	580
	6,867	3,393

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

18. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Non-current		
Rental deposits	**7,070**	5,387
Current		
Trade receivables	**1,445**	459
Prepayments, deposits and other receivables	**7,902**	7,974
	9,347	8,433

The aging analysis of trade receivables, based on invoice date, is as follows:

	2011	2010
	HK$'000	*HK$'000*
Within 30 days and neither past due nor impaired	**1,354**	435
31 to 60 days past due	**3**	2
61 to 90 days past due	**3**	4
Over 90 days past due	**85**	18
	1,445	459

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 balance as at 31 December 2011 were receivables of HK$91,000 (2010: HK$24,000) 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 2010 and 2011. The Group does not hold any collateral over these balances.

The carrying amounts of the Group's trade receivables, deposits and other receivables are denominated in HK$.

19. BALANCES WITH NON-CONTROLLING SHAREHOLDERS OF A SUBSIDIARY

Amounts due from/to non-controlling shareholders of a subsidiary were unsecured, interest-free, repayable on demand and denominated in HK$.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011	2010
	HK$'000	*HK$'000*
Unlisted investments	–	905

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

Changes in fair values of these investments are recorded in 'other (losses) gains, net' in the consolidated statement of comprehensive income.

21. PLEDGED BANK DEPOSIT AND BANK BALANCES AND CASH

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

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

The pledged bank deposit as at 31 December 2010 and 2011 was pledged to a bank for the issuance of a letter of guarantee in favour of the Group (Note 23).

22. TRADE PAYABLES

The following is an aged analysis of trade payables, presented based on the invoice date, at the end of reporting period:

	2011	2010
	HK$'000	*HK$'000*
Within 30 days	**8,341**	6,889
31 to 60 days	**3,326**	2,879
61 to 90 days	–	1
	11,667	9,769

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 31 December 2011 was amounts due to companies controlled by executive directors of the Company of approximately HK$1,672,000 (2010: HK$1,465,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

23. BANK BORROWING, SECURED

	2011	2010
	HK$'000	*HK$'000*
Mortgage loan, secured – repayable on demand	**2,900**	–

Based on the facility agreement, the mortgage loan will be repaid by 120 monthly instalments commencing from January 2012. 120 instalments of the mortgage loan remained outstanding as at 31 December 2011. 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:

	2011	2010
Mortgage loan	**3.5%**	–

As at 31 December 2010 and 2011, the Group had aggregate banking facilities of approximately HK$6,500,000 and HK$4,450,000 respectively for loans and other facilities (including letter of guarantee). Unused facilities as at the same dates amounted to approximately HK$5,000,000 and HK$80,000 respectively. These facilities were secured by:

(a) The Group's pledged bank deposit (for the letter of guarantee) amounting to HK$1,500,000 (2010: HK$1,500,000) as at 31 December 2011 (Note 21);

(b) An investment property with fair value of HK$5,878,000 as at 31 December 2011 (Note 16); and

(c) Personal guarantees executed by Ms. Lau Lan Ying, an executive director and a substantial shareholder of the Company, to the extent of HK$50,000 for certain business credit cards.

The Group's bank facilities as at 31 December 2010 were further secured by:

(a) Personal guarantees executed by Mr. Wong Kwan Mo and Ms. Lau Lan Ying, executive directors and substantial shareholders of the Company (the "Ultimate Shareholders") as at 31 December 2010;

(b) Corporate guarantee executed by a company controlled by Ultimate Shareholders as at 31 December 2010; and

(c) Certain properties held by companies controlled by Ultimate Shareholders as at 31 December 2010.

All such securities were released in February 2011 upon the termination of the relevant facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

24. DEFERRED TAX

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

	2011 *HK$'000*	2010 *HK$'000*
Deferred tax assets	**297**	999
Deferred tax liabilities	**(544)**	(33)
	(247)	966

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior reporting periods:

	Decelerated tax depreciation *HK$'000*	**Tax losses** *HK$'000*	**Total** *HK$'000*
Deferred tax assets			
At 1 January 2010	514	–	514
Credited to profit or loss	527	398	925
At 31 December 2010 and 1 January 2011	**1,041**	**398**	**1,439**
Credited (charged) to profit or loss	**413**	**(85)**	**328**
At 31 December 2011	**1,454**	**313**	**1,767**

	Accelerated tax depreciation *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Deferred tax liabilities			
At 1 January 2010	(113)	(46)	(159)
Charged to profit or loss	(312)	(2)	(314)
At 31 December 2010 and 1 January 2011	**(425)**	**(48)**	**(473)**
Charged to profit or loss	**(1,531)**	**(10)**	**(1,541)**
At 31 December 2011	**(1,956)**	**(58)**	**(2,014)**

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2011, the Group had tax loss carry-forwards of HK$1,903,000 (2010: HK$6,840,000) that can be carried forward against future taxable income indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

24. DEFERRED TAX (CONTINUED)

As at 31 December 2011, the Group had no tax losses for which deferred tax assets were not recognised. As at 31 December 2010, the Group did not recognise deferred tax assets in respect of tax losses amounting to HK$4,425,000 due to the unpredictability of future profit stream.

25. PROVISION FOR REINSTATEMENT COSTS

	2011 ***HK$'000***	2010 *HK$'000*
At 1 January	**2,209**	1,618
Additional provision	**–**	510
Unwinding of discount on provision	**116**	81
At 31 December	**2,325**	2,209

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

The discount rate applied to provision for reinstatement cost as at 31 December 2011 is 5.25% (2010: 4.11%).

26. SHARE CAPITAL

	Number of shares	**Share capital** *HK$'000*
Authorised		
Ordinary shares of HK$0.01 each		
At 10 February 2011 (date of incorporation) *(Note (a))*	38,000,000	380
Increase during the year *(Note (b))*	962,000,000	9,620
As at 31 December 2011	**1,000,000,000**	**10,000**
Issued and fully paid		
Ordinary shares of HK$0.01 each		
At 10 February 2011 (date of incorporation) *(Note (a))*	1	–
Increase in the year *(Note (b))*	37,999,999	380
Capitalisation issue *(Note (c))*	202,000,000	2,020
Issue of shares by placing *(Note (d))*	80,000,000	800
As at 31 December 2011	**320,000,000**	**3,200**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

26. SHARE CAPITAL (CONTINUED)

Notes:

(a) On incorporation of the Company, the authorised share capital of the Company was HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each. On the same date, one ordinary share was subscribed, nil-paid, by a nominee company which was an independent third party. On the same date, the said one nil-paid ordinary share was transferred to KMW. On 24 June 2011, the said one nil-paid share was fully paid up by KMW at par.

(b) Pursuant to a written resolution passed by KMW on 25 June 2011, the authorised share capital of the Company was increased from HK$380,000 to HK$10,000,000 by the creation of 962,000,000 new ordinary shares, which rank pari passu in all respects with the shares in issue as at the date of such resolution. On the same date, 37,999,999 ordinary shares, credited as fully paid, were issued to KMW.

(c) A total of 202,000,000 ordinary shares were credited as fully paid on 25 June 2011 by way of capitalisation of the sum of HK$2,020,000 standing to the credit of the share premium account of the Company, and the shares be allotted and issued rank pari passu in all respects with the existing issued shares.

(d) On 8 July 2011, 80,000,000 ordinary shares of HK$0.01 each were issued at a price of HK$1 each. The new ordinary shares issued rank pari passu with the existing shares in all respects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

27. OPERATING LEASE COMMITMENTS

(a) As lessor

Property rental income earned during the year was approximately HK$350,000 (2010: HK$600,000). The Group sub-let its rented premises under an operating lease arrangement with lease negotiated for a term of two years. The term of the lease generally require the tenants to pay security deposits.

As at 31 December 2011, the Group did not have future minimum lease receivable.

As at 31 December 2010, the Group had future minimum lease receivable under non-cancellable operating lease due within one year of HK$300,000.

(b) As lessee

The Group leases certain of its restaurants under operating lease arrangements. Leases for properties are negotiated for terms ranging from two to ten years. Rental arrangements 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:

	2011 ***HK$'000***	2010 *HK$'000*
Within one year	**27,072**	21,372
In the second to fifth years inclusive	**81,670**	70,360
Over five years	**4,610**	10,800
	113,352	102,532

28. CAPITAL COMMITMENTS

	2011 ***HK$'000***	2010 *HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**1,466**	241
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	**7,832**	18,000
	9,298	18,241

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

29. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

The Group had the following significant transactions with companies beneficially owned by Ultimate Shareholders and their close family members during both reporting periods:

	Notes	**2011** **HK$'000**	2010 *HK$'000*
Rental expenses	*(i)*	**3,030**	2,916
Purchase of goods	*(ii)*	**9,871**	13,020
Management fee income	*(iii)*	**–**	670
Sale of a property	*(iv)*	**–**	1,450

Notes:

(i) Rental expenses were charged according to the terms of the rental agreement entered into between the parties.

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

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

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

(b) Balances with related parties

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following balances with related parties:

	2011 **HK$'000**	2010 *HK$'000*
Rental expenses payables to a related company owned by the Ultimate Shareholders	**130**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

29. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties (Continued)

Notes:

(i) Rental expenses were determined based on terms mutually agreed with the landlord.

(ii) The details of the balances advanced to directors and a related company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	As at 31 December		Maximum amount outstanding during the year ended	
Director/related company	**2011** *HK$'000*	2010 *HK$'000*	**2011** *HK$'000*	2010 *HK$'000*
Mr. Wong Kwan Mo	**–**	2,104	**2,104**	2,737
Ms. Lau Lan Ying	**–**	500	**500**	27,051
	–	2,604	**2,604**	29,788
Red Seasons Investments Limited	**270**	–	**270**	–
U Cellar Limited	**–**	670	**670**	670

Red Seasons Investments Limited is owned by the Ultimate Shareholders.

U Cellar Limited is owned by the close family member of the Ultimate Shareholders.

(iii) Amounts due from/to directors were unsecured, interest-free, repayable on demand and denominated in HK$.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

29. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Other arrangements with related parties

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following related party transactions:

Compensation of key management personnel

The remuneration of directors and other members of key management during the year ended 31 December 2011 and 2010 are as follows:

	2011	2010
	HK$'000	*HK$'000*
Salaries, wages and allowances	**638**	409
Pension costs – defined contributions plans	**17**	17
	655	426

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

Banking facilities

Bank borrowing of companies controlled by the Ultimate Shareholders amounting to approximately HK$35,829,000 as at 31 December 2010 were guaranteed by the Group. All such arrangements with related parties have been terminated in February 2011.

30. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2011, the Group acquired an investment property at an aggregate consideration of approximately HK$5,878,000. The amount was partially settled by a mortgage loan of approximately HK$2,900,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31. 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 of the Company 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 of Directors 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 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2011 *HK$'000*
Non-current asset	
Investment in a subsidiary	**13,086**
Current assets	
Prepayments, deposits and other receivables	**226**
Amounts due from subsidiaries *(Note a)*	**60,528**
Bank balances and cash	**3,690**
	64,444
Current liability	
Other payables	**390**
Net current assets	**64,054**
	77,140
Capital and reserves	
Share capital	**3,200**
Reserves *(Note b)*	**73,940**
	77,140

Notes:

(a) The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

(b) Movements in the reserves during the year are as follows:

	Share premium *HK$'000*	**Capital reserve** *HK$'000* *(Note)*	**Accumulated loss** *HK$'000*	**Total** *HK$'000*
At 10 February 2011 (date of incorporation)	–	–	–	–
Reorganisation	–	12,706	–	12,706
Capitalisation issue of shares	(2,020)	–	–	(2,020)
Issue of new shares	79,200	–	–	79,200
Transaction costs attributable to issue of new shares	(11,759)	–	–	(11,759)
Loss for the year	–	–	(4,187)	(4,187)
At 31 December 2011	65,421	12,706	(4,187)	73,940

Note: The capital reserve represents the difference between the nominal value of the shares issued for the acquisition of equity interests in the subsidiaries as part of the group reorganisation and the aggregate equity of the subsidiaries acquired by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

33. SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31 December 2011 and 2010 are as follows:

Name	Place of incorporation/ registration and operation	Issued and fully paid up ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
GR Holdings Limited	Samoa	US$100	100%	–	Investment holding
Gayety Limited	Hong Kong	HK$1	–	100%	Restaurant operations and licence holding
Jubilant Company Limited	Hong Kong	HK$1	–	100%	Central procurement operations
Red Seasons Limited	Hong Kong	HK$2	–	100%	Restaurant operations and licence holding
Red Seasons Corporation Limited	Hong Kong	HK$2	–	100%	Restaurant operations and licence holding
Red Seasons Catering Limited	Hong Kong	HK$2	–	100%	Restaurant operations and licence holding
Sencas Limited	Hong Kong	HK$10,000	–	60%	Provision of staff training for the Group
Tin Ho Restaurant Limited	Hong Kong	HK$800,000	–	60%	Restaurant operations and licence holding
Blissful Dragon Limited*	BVI	US$1	–	100%	Property holding
Infinite Choice Limited*	BVI	US$1	–	100%	Inactive
Lofty Champion Limited*	BVI	US$1	–	100%	Inactive
Red Seasons Development Limited*	Hong Kong	HK$2,100,000	–	100%	Restaurant operations and licence holding

All subsidiaries are companies incorporated with limited liability in the respective places.

None of the subsidiaries had issued any debt securities subsisting at the end of the year or at any time during both years.

* Subsidiaries incorporated during the year ended 31 December 2011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

34. EVENTS AFTER THE REPORTING PERIOD

Share sub-division

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.

Details of the Share Sub-division are set out in the Company's announcement dated 16 December 2011.

Loan agreement

Subsequent to the end of the reporting period, the Company entered into a loan agreement with KMW for advancing a loan of HK$9,900,000 to KMW. The loan is unsecured, bear interest at Prime Rate plus 1% accrued from day to day, and repayable in 3 years from the date of drawdown.

In connection of the granting of the loan, KMW also granted the Company a call option to acquire the entire issued share capital of a company engaged in the operation of two ramen restaurants in Hong Kong at a consideration to be determined based on the fair market value of the company at the date the call option is exercised.

Details of the loan agreement are set out in the Company's announcement dated 11 January 2012.

SUMMARY OF FINANCIAL INFORMATION

RESULTS	Year ended 31 December		
	2011	2010	2009
	HK$'000	*HK$'000*	*HK$'000*
Revenue	**279,847**	210,320	126,476
Profit before tax	**27,975**	14,455	13,570
Income tax expenses	**(5,069)**	(3,177)	(2,387)
Profit for the year	**22,906**	11,278	11,183

ASSETS AND LIABILITIES	As at 31 December		
	2011	2010	2009
	HK$'000	*HK$'000*	*HK$'000*
Current assets	**66,004**	35,854	32,679
Non-current assets	**65,723**	28,753	19,217
Total assets	**131,727**	64,607	51,896
Current liabilities	**40,037**	41,691	39,233
Non-current liabilities	**2,869**	2,242	1,731
Total liabilities	**42,906**	43,933	40,964
Net assets	**88,821**	20,674	10,932
Equity attributable to owners of the Company	**86,812**	18,667	10,195
Non-controlling interests	**2,009**	2,007	737
	88,821	20,674	10,932

The results and summary of assets and liabilities for the years ended 31 December 2009 and 2010 which were extracted from the Prospectus have been prepared on a combined basis to indicate the results of the Group as if the group structure, at the time when the Company's shares were listed on the GEM of the Stock Exchange, had been in existence throughout those years.