



喜尚控股有限公司
Gayety Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 8179



2014

First Quarterly Report

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

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

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

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Wong Kwan Mo (*Chairman*)

Ms. Lau Lan Ying (*Chief executive officer*)

Independent non-executive Directors

Mr. Li Fu Yeung

Ms. Chiu Man Yee

Mr. Kwan Wai Yin, William

Compliance Officer

Ms. Lau Lan Ying

Authorised Representatives

Ms. Lau Lan Ying

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

Company Secretary

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

Audit Committee Members

Mr. Li Fu Yeung (*Chairman*)

Ms. Chiu Man Yee

Mr. Kwan Wai Yin, William

Remuneration Committee Members

Ms. Chiu Man Yee (*Chairman*)

Mr. Li Fu Yeung

Mr. Kwan Wai Yin, William

Nomination Committee Members

Mr. Li Fu Yeung (*Chairman*)

Ms. Chiu Man Yee

Mr. Kwan Wai Yin, William

Auditors

SHINEWING (HK) CPA Limited

Certified Public Accountants

Legal Advisers to the Company

Michael Li & Co.

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited

DBS Bank (Hong Kong) Limited

Registered Office

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

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

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

Hong Kong Share Registrars and Transfer Office

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

Company Website

www.gayety.com.hk

GEM Stock Code

8179

HIGHLIGHTS

- The Group's turnover for the three months ended 31 March 2014 increased by approximately 12% to approximately HK\$109,864,000 (2013: HK\$97,695,000).
- Profit attributable to the owners of the Company for the three months ended 31 March 2014 amounted to approximately HK\$3,833,000 (2013: HK\$3,858,000).
- Basic earnings per share for the three months ended 31 March 2014 was approximately HK0.12 cents (2013: HK0.12 cents).

The board of Directors (the “Board”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2014 (the “First Quarterly Financial Statements”), together with the unaudited comparative figures for the corresponding period in 2013, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

For the three months ended 31 March 2014

	Notes	For the three months ended 31 March	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Turnover	4	109,864	97,695
Other income	4	18	161
Cost of inventories consumed		(34,720)	(31,694)
Employee benefits expenses	5	(37,389)	(31,839)
Depreciation		(5,406)	(4,055)
Operating lease rentals and related expenses		(11,730)	(9,949)
Utilities expenses		(7,358)	(6,288)
Other operating expenses		(8,583)	(8,584)
Finance costs	6	(68)	(62)
Profit before tax	7	4,628	5,385
Income tax expenses	8	(1,080)	(1,384)
Profit for the period		3,548	4,001
Attributable to:			
Owners of the Company		3,833	3,858
Non-controlling interests		(285)	143
		3,548	4,001
Earnings per share			
Basic and diluted (HK cents)	9	0.12	0.12

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

For the three months ended 31 March 2014

	For the three months ended 31 March	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Profit for the period	3,548	4,001
Other comprehensive income for the period:		
<i>Item that may be reclassified subsequently to profit or loss</i>		
Exchange differences on translation of foreign operation	(7)	–
Total comprehensive income for the period	3,541	4,001
Attributable to:		
Owners of the Company	3,826	3,858
Non-controlling interests	(285)	143
	3,541	4,001

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the three months ended 31 March 2014

	Attributable to owners of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 Note (i)	Other reserve HK\$'000 Note (ii)	Foreign currency translation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Balance at 1 January 2014	3,200	65,421	106	448	-	55,236	124,441	2,962	127,373
Profit and total comprehensive income for the period	-	-	-	-	(7)	3,833	3,826	(285)	3,541
Dividend (Note 10)	-	-	-	-	-	-	-	(900)	(900)
Balance at 31 March 2014	3,200	65,421	106	448	(7)	59,069	128,237	1,777	130,014
Balance at 1 January 2013	3,200	65,421	106	-	-	41,478	110,205	2,857	113,062
Profit and total comprehensive income for the period	-	-	-	-	-	3,858	3,858	143	4,001
Transactions with non-controlling interests	-	-	-	728	-	-	728	(1,428)	(700)
Balance at 31 March 2013	3,200	65,421	106	728	-	45,336	114,791	1,572	116,363

Notes:

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

NOTES TO THE FIRST QUARTERLY FINANCIAL STATEMENTS

For the three months ended 31 March 2014

Notes:

1. GENERAL INFORMATION

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”) since 8 July 2011. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands. The address of its principal place of business is Shop 46, G/F., Ho Shun Tai Building, No. 10 Sai Ching Street, Yuen Long, New Territories.

At the end of the reporting period and the date of these consolidated financial statements, the Company’s immediate and ultimate holding company is KMW Investments Limited, a company incorporated in British Virgin Islands.

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

2. BASIS OF PREPARATION

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

The accounting policies and methods of computation used in the preparation of the First Quarterly Financial Statements are consistent with those adopted in the annual report for the year ended 31 December 2013, except for the adoption of the new and revised HKFRSs. The First Quarterly Financial Statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual report for the year ended 31 December 2013.

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

3. APPLICATION OF NEW AND REVISED HKFRSs

In the current period, the Group has adopted the following new and revised HKFRSs, which are effective for the Group's accounting period beginning on or after 1 January 2014.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

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

Impact of issued but not yet effective HKFRSs

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

Amendment to HKFRSs	Annual Improvement to HKFRSs 2010-2012 Cycle ¹
Amendment to HKFRSs	Annual Improvement to HKFRSs 2011-2013 Cycle ¹
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ²
HKFRS 9	Financial Instruments ²
HKFRS 14	Regulatory Deferral Account ³
Amendments to HKAS 19	Defined Benefit Plans – Employee Contributions ¹

¹ Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

² Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

³ Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

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

4. TURNOVER AND OTHER INCOME

	For the three months ended 31 March	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Turnover		
Chinese restaurant operations	109,864	97,695
Other income		
Sub-letting income	10	10
Loan interest income from a substantial shareholder (<i>Note</i>)	–	146
Bank interest income	2	2
Sundry income	6	3
	18	161

Note:

On 18 January 2012, the Company entered into a loan agreement with KMW Investments Limited, Mr. Wong Kwan Mo and Ms. Lau Lan Ying pursuant to which the Company agreed to provide a loan in the principal amount of HK\$9,900,000 to KMW Investments Limited. The repayment of the loan is secured by the personal guarantee provided by Mr. Wong Kwan Mo and Ms. Lau Lan Ying to the Company. The loan bears interest rate at Hong Kong Prime Rate plus 1% and is repayable in 3 years from the date of drawdown. Details of which were set out in the announcement of the Company dated 18 January 2012.

The entire loan receivable and interest due from the substantial shareholder were fully settled during the year ended 31 December 2013.

5. EMPLOYEE BENEFITS EXPENSES

	For the three months ended 31 March	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Salaries, wages and allowance	33,723	30,485
Incentive payments	2,100	–
Contributions to retirement benefits scheme – defined contribution plan	1,566	1,354
	37,389	31,839

6. FINANCE COSTS

	For the three months ended 31 March	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Finance costs on bank borrowing not wholly repayable within five years	20	23
Unwinding of discount on provision for reinstatement costs	48	39
	68	62

7. PROFIT BEFORE TAX

	For the three months ended 31 March	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Profit before tax is stated after charging the following:		
Kitchen consumables (included in other operating expenses)	792	763
Cleaning expenses (included in other operating expenses)	1,135	985
Operating lease rentals in respect of rented premises	9,564	8,470

8. INCOME TAX EXPENSES

	For the three months ended 31 March	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Current income tax	1,080	1,384

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

9. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the three months ended 31 March 2014 is based on the profit attributable to owners of the Company of HK\$3,833,000 (2013: HK\$3,858,000) and the weighted average of 3,200,000,000 ordinary shares in issue (2013: 3,200,000,000 ordinary shares).

Diluted earnings per share for the three months ended 31 March 2013 and 2014 are the same as the basic earnings per share as there were no dilutive potential ordinary shares.

10. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2014 (2013: Nil).

During the three months ended 31 March 2014, interim dividend amounting to HK\$900,000 was paid by Tin Ho Restaurant Limited, a non-wholly owned subsidiary of the Company, to its minority shareholders.

11. SUBSEQUENT EVENTS

On 15 April 2014, Lucky Great Investment Limited (a non-wholly owned subsidiary of the Group) entered into the conditional sale and purchase agreement (the "Agreement") with an independent third party. Pursuant to the Agreement, Lucky Great Investment Limited has conditionally agreed to acquire 58% of the entire issued share capitals of Nicecity Limited and Excellent Catering Management Limited, at a consideration of HK\$3,750,000.

Details of the transaction is set out in the Company's announcement dated 15 April 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board is pleased to announce the Group's first quarterly results for the three months ended 31 March 2014.

Business Review

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

The Group has achieved stable growth for the three months ended 31 March 2014. As at 31 March 2014, we are operating ten restaurants under four brands and their performances are outlined below.

Red Seasons Aroma Restaurant (“Red Seasons”)

Red Seasons targets customers desiring quality food and special Chinese cuisine at competitive prices. Many customers have found the allure of Red Seasons irresistible, thanks in large measure to the signature dish, roast suckling pig stuffed with glutinous rice and dried prawns. During the three months ended 31 March 2014, the Red Seasons restaurants have achieved a satisfactory result with the turnover up by around 21% to approximately HK\$63,967,000 as compared to the last corresponding period. The increase was mainly due to the newly opened Sai Wan Red Seasons.

Plentiful Delight Banquet

The second brand established by the Group, Plentiful Delight Banquet serves Cantonese dim sum and fresh seafood delicacies that are not commonly found in other restaurants. Offering banquet facilities with a seating capacity of 100 banquet tables, Plentiful Delight Banquet is ideal for large-scale events up to 1,200 guests on a single occasion. During the three months ended 31 March 2014, Plentiful Delight Banquet recorded turnover of approximately HK\$23,713,000, a slight decrease of approximately 4% as compared to the last corresponding period.

Red Royalty Banquet

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

During the three months ended 31 March 2014, Red Royalty Banquet generated turnover of approximately HK\$18,559,000. Turnover from banquet and dining services generated by Plentiful Delight Banquet and Red Royalty Banquet amounted to approximately HK\$42,272,000 which was similar to that of the last corresponding period.

Home-made Cuisine

Home-made Cuisine targets mid-range spending segments and is a great place for a gathering of family and friends. It serves contemporary Cantonese cuisine in a comfortable and homey environment. The restaurants specialise in home-made dishes and soups while cooking in an innovative, hearty and healthy way. The menu offers the best choice for those seeking a healthy nutritious meal.

The second restaurant under the brand of Home-made Cuisine is located in Olympian City and commenced business in March 2013. During the three months ended 31 March 2014, Home-made Cuisine generated turnover of approximately HK\$3,625,000.

Financial Review

During the three months ended 31 March 2014, the Group's revenue amounted to approximately HK\$109,864,000, representing an increase of approximately 12% as compared to the last corresponding period. This was mainly attributable to the strong growth in comparable restaurant sales and the establishment of new restaurants. Profit attributable to owners of the Company amounted to approximately HK\$3,833,000 (2013: HK\$3,858,000), representing a profit margin of approximately 3% (2013:4%).

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

The cost of inventories consumed for the three months ended 31 March 2014 amounted to approximately HK\$34,720,000 (2013: HK\$31,694,000). The Group increased bulk purchases of food raw materials from suppliers in order to enjoy a larger discount and achieved optimum food mixing. These procedures helped maintain the cost of inventories consumed below approximately 32% of the Group's revenue.

Employee benefits expenses were approximately HK\$37,389,000 (2013: HK\$31,839,000). The increase was mainly due to the newly opened Sai Wan Red Seasons and Olympian City Home-made Cuisine restaurants, and the wage adjustments to retain experienced staff under the inflationary environment during the three months ended 31 March 2014. The Group regularly reviews the work allocations of the staff to improve and maintain a high standard of service.

The operating lease rental and related expenses for the three months ended 31 March 2014 amounted to approximately HK\$11,730,000, representing an increase of approximately 18% as compared to the last corresponding period. The increase was mainly due to the newly opened Sai Wan Red Seasons and Olympian City Home-made Cuisine restaurants. To better control the lease and related expenses, the Group has entered into long-term lease agreements to maintain the rentals at a reasonable level.

Outlook and prospects

Given the uncertainties in the global economy, consumer sentiment in Hong Kong has been weakened. In order to succeed and deliver the best to shareholders, management will closely monitor the market situation and enhance the business operations.

The management is committed to bolster the customer base. The Group continues to search for suitable sites with high traffic flow and reasonable rentals for expansion. The Group is establishing the third restaurant under the brand of Home-made Cuisine in Popcorn, Tseung Kwan O. The new restaurant will commence business in June 2014. Meanwhile, the Group is also continuously developing appetising specialty dishes as well as providing better quality services to customers so as to solidify the Group's market position.

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

On 15 April 2014, Lucky Great Investment Limited (a non-wholly owned subsidiary of the Group) entered into the conditional sale and purchase agreement (the "Agreement") with an independent third party. Pursuant to the Agreement, Lucky Great Investment Limited has conditionally agreed to acquire 58% of the entire issued share capitals of each of Nicecity Limited and Excellent Catering Management Limited (the "Target Group"). The Target Group is principally engaged in the production, sales and distribution of barbecued food (燒臘食品) to chain supermarket in Hong Kong. The management believes that the acquisition can consolidate the vertical integration on distribution, benefit the existing catering business with a synergy effect and strengthen the Group on its involvement in the distribution of barbecued food to chain supermarket in Hong Kong.

The management also realises the growing opportunities for business expansion in the PRC. In parallel with its rapid economic growth, PRC residents have both higher consuming power and demands for quality Chinese food and services than before. The Board believes Hong Kong-style food has a huge pent-up demand in the PRC and the Group can leverage its brand recognition and extensive catering experience in Hong Kong to explore catering business in the PRC. The Group is now in the preliminary stage of establishing two eateries featuring a wide variety of Hong Kong-style cuisine in Shanghai. The Group will commence this catering business under a new brand. By encompassing these wide-ranging valuable experiences, the new brand will provide a selection of delicious Hong Kong-style menu items that are irresistible to the PRC customers. The management believes these new restaurants provide a golden opportunity for the Group to tap the PRC market.

Liquidity, Financial and Capital Resources

Capital structure

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

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

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

Cash position

As at 31 March 2014, the carrying amount of the Group's unpledged bank balances and cash was approximately HK\$68,604,000 (31 December 2013: approximately HK\$65,612,000).

The pledged bank deposit of approximately HK\$1,500,000 as at 31 December 2013 and 31 March 2014 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

As at 31 March 2014, bank borrowing of HK\$2,332,000 (31 December 2013: HK\$2,397,000) represented the secured mortgage loan. Based on the facility agreement, the mortgage loan will be repaid by 120 monthly instalments commencing from January 2012. The facility agreement contains a repayment on demand clause pursuant to which the bank can at its discretion demand repayment of the entire outstanding balance from the Group in the absence of any defaults.

Mortgage loan carries interest at Prime Rate less 1.75% per annum. The effective interest rate at the end of the reporting period is 3.5% per annum (31 December 2013: 3.5%).

As at 31 December 2013 and 31 March 2014, the Group had aggregate banking facilities of approximately HK\$3,947,000 and HK\$3,882,000 respectively for loans and other facilities (including letter of guarantee). Unused facilities as at the same dates amounted to approximately HK\$107,000 and HK\$107,000 respectively. These facilities were secured by:

- (a) The Group's pledged bank deposit (for the letter of guarantee) amounting to HK\$1,500,000 (31 December 2013: HK\$1,500,000) as at 31 March 2014;
- (b) Leasehold land and building with a carrying amount of HK\$5,833,000 (31 December 2013: HK\$5,870,000) as at 31 March 2014; and
- (c) Certain business credit cards were guaranteed by Mr. Wong Kwan Mo and Ms. Lau Lan Ying, executive Directors of the Company, to the extent of HK\$50,000 in aggregate.

Gearing ratio

The gearing ratio is calculated as net debt (bank borrowing 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 2013 and 31 March 2014 as the Group's bank balances and cash is larger than its bank borrowing.

Dividend

Details of the dividend are set out in Note 10 to the First Quarterly Financial Statements.

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

Save as disclosed elsewhere in this report, there were no significant investments held, material acquisitions or disposals of subsidiaries and affiliated companies during the three months ended 31 March 2014. Save for the business plan as disclosed in the prospectus of the Company and elsewhere in this report, there is no plan for material investments or capital assets as at 31 March 2014.

SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

No share options were granted since the adoption of the Share Option Scheme and there were no share option outstanding as at 31 March 2014 (2013: Nil).

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 March 2014, 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 Directors	Capacity/nature of interest	Total number of ordinary shares	Approximate percentage of interest
Mr. Wong Kwan Mo (<i>Note</i>)	Interest in controlled corporation	1,665,208,000	52%
Ms. Lau Lan Ying (<i>Note</i>)	Interest in controlled corporation	1,665,208,000	52%

Note:

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

Saved as disclosed above, as at 31 March 2014, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 to Rule 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

So far as the Directors are aware, as at 31 March 2014, other than the Directors or chief executives of the Company whose interests or short positions are disclosed under the paragraph headed "Directors' and chief executives' interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations" above, the following persons have interests or short positions in the shares or underlying shares of the Company which have 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	Capacity/nature of interest	Total number of ordinary shares	Approximate percentage of interest
KMW Investments Limited (Note)	Beneficial owner	1,415,208,000	44%
Strong Light Investments Limited (Note)	Beneficial owner	250,000,000	8%

Note:

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

Saved as disclosed above, as at 31 March 2014, 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’ 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 three months ended 31 March 2014 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares during the three months ended 31 March 2014.

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 three months ended 31 March 2014 or as at 31 March 2014.

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 Corporate Governance 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 March 2014, the audit committee of the Company consists of three members, namely Mr. Li Fu Yeung, Ms. Chiu Man Yee and Mr. Kwan Wai Yin, William. Mr. Li Fu Yeung is the chairman of the audit committee.

The audit committee had reviewed the unaudited First Quarterly Financial Statements for the three months ended 31 March 2014 and is of the opinion that the preparation of such statements complied with the applicable accounting standards and that adequate disclosures have been made.

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

Hong Kong, 15 May 2014

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