喜尚控股有限公司

# Gayety Holdings Limited

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

**(Stock Code: 8179)**

## ANNOUNCEMENT OF THE FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

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

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



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

The board (the "Board") of directors (the "Directors") of Gayety Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2011, together with the comparative figures in the previous year as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2011*

| | *NOTES* | **2011** *HK$'000* | 2010 *HK$'000* |
|---|---|---|---|
| Turnover | *4* | **279,847** | 210,320 |
| Other income | *4* | **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 | | **(111)** | 564 |
| Other operating expenses | | **(20,206)** | (14,229) |
| Finance costs | *6* | **(375)** | (669) |
| Profit before tax | *5* | **27,975** | 14,455 |
| Income tax expenses | *7* | **(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 | *9* | **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 | | **49,743** | 21,938 |
| Investment property | | **5,878** | – |
| Rental deposits | | **7,070** | 5,387 |
| Prepayment for acquisition of property, plant and equipment | | **2,735** | 429 |
| Deferred tax assets | | **297** | 999 |
| | | **65,723** | 28,753 |
| **Current assets** | | | |
| Inventories | *10* | **6,867** | 3,393 |
| Trade receivables | *11* | **1,445** | 459 |
| Prepayments, deposits and other receivables | | **7,902** | 7,974 |
| Amount due from a related company | | **270** | 670 |
| Amounts due from directors | | **–** | 2,604 |
| Amount due from a non-controlling shareholder of a subsidiary | | **–** | 1,100 |
| Income tax recoverable | | **839** | 281 |
| Financial assets at fair value through profit or loss | | **–** | 905 |
| Pledged bank deposit | *12* | **1,500** | 1,500 |
| Bank balances and cash | | **47,181** | 16,968 |
| | | **66,004** | 35,854 |
| **Current liabilities** | | | |
| Trade payables | *13* | **11,667** | 9,769 |
| Other payables, accruals and deposits received | | **24,780** | 12,684 |
| Amounts due to directors | | **–** | 12,988 |
| Amounts due to non-controlling shareholders of a subsidiary | | **–** | 4 |
| Income tax payable | | **690** | 6,246 |
| Bank borrowing, secured | *14* | **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 | | **2,325** | 2,209 |
| Deferred tax liabilities | | **544** | 33 |
| | | **2,869** | 2,242 |
| | | **88,821** | 20,674 |

| | NOTE | **2011** HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Capital and Reserves** | | | |
| Share capital | *15* | **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 |

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

## 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.

The Group has already commenced an assessment of the related impact of adopting the above new standards, amendments and interpretations, but it is not yet in a position to state whether they will have a significant impact on its results of operations or financial positions.

## 3. 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.

## 4. 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 |

## 5. PROFIT BEFORE TAX

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before tax has been arrived at after charging (crediting): | | |
| 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 |

## 6. 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 | **116** | 81 |
| | **375** | 669 |

## 7. INCOME TAX EXPENSES

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

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

## 8. 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.

## 9. 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 (Notes 15(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 15(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.

The weighted average number of shares in issue during the year ended 31 December 2010 represents the 240,000,000 shares (Notes 15(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.

## 10. INVENTORIES

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

## 11. TRADE RECEIVABLES

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.

## 12. PLEDGED BANK DEPOSIT

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 14).

## 13. 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 – 60 days | **3,326** | 2,879 |
| 61 – 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.

## 14. 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 12);

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

## 15. 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:*

(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.

## 16. 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.

## 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.

## Awards and Certificates

The Group secured 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.

### *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 expenses and related expenses

The operating lease rental expenses 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.

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***

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, bank balances and cash 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 December 2011, the carrying amount of the Group' 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***

The Group's bank borrowing and charges on the Group's assets as at 31 December 2011 are set out in Note 14.

***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 amount due to directors.

**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.

**Segmental Information**

The Group's segment information and revenue for the year ended 31 December 2011 are set out in Notes 3 and 4 respectively.

**Dividends**

The Directors do not recommend the payment of final dividends for the year ended 31 December 2011. Details of dividends for the year ended 31 December 2011 are set forth in Note 8.

**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.

**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.

## 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 on 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 annual general meeting.

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

Hong Kong, 23 March 2012

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

*This announcement will remain on the "Latest Company Announcements" page of the GEM website at http://www.hkgem.com for at least 7 days from the date of its posting and on the website of the Company at http://www.gayety.com.hk.*