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## BUSINESS

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### OVERVIEW

The Group is a Chinese restaurant group recognised for delivering Cantonese cuisine and Chinese banquet and dining services. As at the Latest Practicable Date, the Group operated four full-service restaurants in Hong Kong and a full-service restaurant in Shenzhen, the PRC to provide Cantonese cuisine under the brand name of “Star of Canton (利寶閣)”. The Group also opened a Jingchuanhu cuisine restaurant in Hong Kong at the end of October 2015 under a new brand name of “Beijing House (京香閣)”. All of the Group’s restaurants were strategically situated in landmark shopping arcades or commercial complex at prime locations. The Group maintains a business philosophy of offering quality food and services at reasonable prices under elegant and comfortable dining environment. It is committed to providing pleasant dining experiences to its customers by offering quality food dishes emphasising fresh ingredients at affordable prices.

The first restaurant of the Group was established in 1998 and the Group has been striving to produce traditional Cantonese cuisine which the Directors believe to be the most popular kind of Chinese cuisine in Hong Kong and Shenzhen, the PRC according to market share.

The Group’s business can be classified into two major service categories:

- serving Chinese cuisines including Cantonese dim sum and main dishes, fresh seafood delicacies and specialty Chinese cuisine such as roast suckling pigs, braised abalone and sea cucumber; and
- providing Chinese banquet and dining services for large-scale events.

As at the Latest Practicable Date, the Group’s Cantonese restaurants in Hong Kong and Shenzhen, the PRC were operated under the same brand, namely, Star of Canton (利寶閣), to carry out the Group’s Cantonese catering business of operation of Star of Canton Restaurants. In order to diversify the Group’s catering business to accommodate customers with preference for other Chinese cuisines, the Group established a second brand, namely, Beijing House (京香閣) and operated a new restaurant at the end of October 2015 to provide Jingchuanhu cuisines. Upon the expiry of the tenancy of one of the restaurants in Tsim Sha Tsui, namely, the I-Square Restaurant, which ceased business in November 2015, and the opening of the two new restaurants, i.e. the Sheung Wan Restaurant and the Beijing House Restaurant, both located in Sheung Wan at the end of October 2015, the Group operated four Cantonese restaurants and one Jingchuanhu cuisine restaurant in Hong Kong, as well as one Cantonese restaurant in Shenzhen, the PRC as at the Latest Practicable Date.

All the Group’s restaurants in Hong Kong under the brand of Star of Canton are equipped with banquet facilities and have a seating capacity of 29 to 39 banquet tables enabling them to serve up to approximately 350 to 470 guests on a single occasion based on the Group’s internal seating plans. The Directors consider that the restaurants’ banquet settings and dining environments are able to build up a sustainable customer base and enhance local reputation.

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The Group's current restaurant business principally targets the mid-to-high end restaurant market. It will continue to expand its market share through expanding its restaurant network strategically and promoting brand recognition. It plans to open more restaurants in prime locations with continuous and steady flow of potential customers and well-developed transportation networks, and identify premises suitable for holding banquets and large-scale events.

To deliver high quality food, the Group endeavours to provide fresh, made-to-order cuisine emphasising on bringing out the flavour from fresh and quality food ingredients and seasonings. In this connection, the Group places high emphasis on identifying and ensuring a reliable supply of fresh and quality food ingredients and reviews the quality of food ingredients on a regular basis. In addition to using fresh and quality food ingredients, cooking techniques are just as important to the Group. Cooking technique for each dish is chosen carefully and the Group's chefs set high standards for quality execution. In order to highlight qualities of food ingredients on top of flavour, aroma, colour and texture, the Group also endeavours to use cooking methods and recipes which the Directors believe would preserve the nutritional value of food ingredients and allow dishes to be served at desired time and temperature. The Group also advocates healthy meals by offering dishes using less oil and salt for cooking without the use of monosodium glutamate. The Group is also keen on developing innovative and special Chinese cuisine utilising authentic recipes to attract customers and differentiate itself from competitors. The Directors believe that the Group's adherence to this philosophy has contributed to the success of its restaurants.

For the years ended 31 December 2013, 2014 and 2015, the Group's revenue amounted to approximately HK\$174.6 million, HK\$245.9 million and HK\$256.9 million, respectively, and the profit attributable to owners of the Company amounted to approximately HK\$4.2 million, HK\$16.4 million and HK\$3.7 million, respectively. The decrease in the Group's profit attributable to the owners of the Company for the year ended 31 December 2015 as compared to that of 2014 was mainly due to: (i) the charge of [REDACTED] of approximately HK\$[REDACTED] incurred during the year ended 31 December 2015; and (ii) the record of loss of the Sheung Wan Restaurant and the Beijing House Restaurant of approximately HK\$4.8 million for the year ended 31 December 2015 during its initial stage of operation.

### COMPETITIVE STRENGTHS

The Directors believe that the following competitive strengths of the Group have contributed to its success and enabled it to compete effectively in the Chinese restaurant industry in Hong Kong and the PRC.

#### **Successful business strategy of providing quality food at reasonable prices**

The Directors believe that its adherence to delivering quality food at reasonable prices is a key to success of the Group's restaurant business.

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As distinguished from some Chinese restaurant groups in Hong Kong and the PRC that, as the Directors are aware, operate mass production of low-priced foods with which emphasis is placed on price rather than quality, the Group endeavours to provide quality food with a strong focus on using fresh and quality food ingredients and seasonings. As such, the Group selects food ingredients carefully, often based on origin, nutritional value, freshness and consumption safety. For example, the Group’s signature dish of braised abalone is produced using quality abalone, coupled with authentic cooking technique and recipe. The Group maintains a list of suppliers for most food types where each supplier has to be first approved by the Group’s senior management and sources materials and food ingredients only from them. The freshness and quality of the raw materials and food ingredients provided by its suppliers are evaluated on a regular basis and the Group would cease to source from those suppliers who fail to provide quality food ingredients.

In addition to using fresh and quality ingredients, cooking techniques are just as important to the Group. The cooking technique used for each dish is chosen carefully and the Group’s chefs set high standards for quality execution. In order to highlight qualities of food ingredients on top of flavour, aroma, colour and texture, the Group also endeavours to use cooking methods and recipes which the Directors consider would preserve the nutritional value of food ingredients and allow dishes to be served at desired time and temperature. The Group is also keen on developing innovative and special Chinese cuisine utilising authentic and ancient recipes to attract customers and differentiate itself from competitors. Further, all the head chefs of the Group’s restaurants have substantial experience in cooking and serving Chinese cuisine. They often pass on their experience in traditional cooking methods and recipes to junior chefs. The Directors believe that their solid experiences and expertises contribute to the success of the Group in providing quality cuisine.

In deciding the price of each menu item, the Group takes into account the costs of raw materials and food ingredients, target profit margins, general market trends, spending patterns and purchasing power of customers and prices set by competitors. Given that the Group aims to maintain its positioning in the mid-to-high end market, it strives to provide quality cuisine at reasonable prices. The Directors believe that such pricing policy helps to create an attractive price-value proposition typically favoured by customers.

### **Well-planned multi-branding strategy and market initiatives**

The Group’s two brands, namely, “Star of Canton” and “Beijing House” feature distinctive brand images. Apart from offering different food themes or cuisine, restaurants under different brand names would have different styles of decoration, tableware and staff uniform, in order to provide different dining experiences to its customers. Besides, as food safety is an important issue in China, Shenzhen Restaurant promotes its brand of Star of Canton as a reputable brand in Hong Kong’s Chinese restaurant market and uses the same Hong Kong celebrity as its spokesperson for those restaurants in Hong Kong in order to enhance customer confidence.

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All the Group's restaurants target at mid-to-high end spending customers. In order to differentiate the Group's two brands in terms of the interior design of the restaurants, Star of Canton Restaurants were decorated in a way to provide a luminous and spacious environment suitable for festive occasions and celebratory events using its sizeable dining area which features, among others, high ceiling, luxurious chandeliers, shiny tableware and adequate lighting. Instead, the Beijing House Restaurant aims to create a warm and relatively quiet environment suitable for family and business dining gathering of smaller group in terms of number of patrons per table, and feature, among others, delicate tableware and warm lighting.

The Directors believe that this multi-branding strategy will facilitate the expansion of the Group's restaurants under different brand names and allows it to capture additional market share.

The Group also takes various marketing initiatives to promote its brands, including participation in cooking competitions. The obtainment by Star of Canton Restaurant of the Gold Award and The Most Creative Award for Chicken Dishes Group of The Sixth Open Fire Cooking Competition (第六屆明火食神爭霸戰雞組金獎) organised by the Metro Finance channel of Metro Broadcast Corporation Limited demonstrates the success of the Group in putting its marketing initiatives in practice. The Group also promotes its brand of Star of Canton by using a celebrity as its spokesperson to promote its signature dishes. The Directors believe that the Group's branding strategy and market initiatives enable the Group to develop its restaurant business in the long run.

### **High standard of quality control throughout all production processes**

The Group places high emphasis on quality control in food preparation process and the Directors consider that it remains the cornerstone of the Group's reputation and helps the Group to maintain customer confidence. Each of the Group's restaurants conducts food preparation in its own kitchen. Some Chinese restaurant groups in Hong Kong centralise food preparation functions of restaurants in different locations in one single food processing centre to lower overall production costs. However, centralisation of food preparation would produce time gaps between food processing and meal service time which could adversely affect the freshness and quality of dishes served to the customers, especially for dim sum and steamed dishes which should be consumed within minutes after being cooked for the best quality. Further, food processing centre operations are likely to be associated with a higher risk of outbreak of food-related problems as the entire restaurant chain uses the same food processing centre as a sourcing destination, which would also result in difficulties in food recalls. As it is the Group's business strategy to attract customers by offering fresh and quality food, each of the Group's restaurants conducts its own quality control and food preparation functions, including fresh food ingredients procurement, preservation, preparation, processing and storage. With a decentralised food preparation process, the chefs and managers of the respective restaurants are able to closely monitor each step in the food preparation process, which helps to reduce the risk of outbreak of food-related problems and ensure timely delivery of freshly cooked food to customers.

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Each restaurant has a food preparation division which focuses on kitchen operations. The food preparation division is divided into different sections based on food types, including main dishes section, dim sum section and barbecued food section, and is led by the main dishes section head chef. The main dishes section is led by the head chef and other sections are managed by their respective section head chefs. The section head chefs coordinate the work of small teams of chefs and assistants of their respective section. All the chefs and staff working in the kitchen are required to strictly adhere to the procedures and measures adopted by the senior management of the Group and, based on job duties, receive on-the-job training in relation to food ingredients preparation and preservation, flow of food production, hygiene conditions of the kitchen and quality control in different aspects of the operations of restaurants.

### **Sourcing capabilities supported by a strong profile of quality suppliers**

The Directors believe that sourcing capabilities play an important role in the management of restaurant business, and one of the competencies essential to maximising sourcing capabilities is effective supplier selection. In this regard, the Group normally places purchase orders for raw materials, including food ingredients and other restaurant supplies, with suppliers approved by senior management based on a set of selection criteria, including but not limited to the type and quality of ingredients, cost, reputation, service, agility, delivery efficiency and past performance. Such supplier selection criteria aims to ensure that the Group can secure continual supply of ingredients of consistent quality, identify the source of supply promptly, maintain flexibility in stock levels and enjoy bulk purchase discounts. For supply of wines, the Shenzhen Restaurant entered into an exclusive contract with a wine supplier pursuant to which the Shenzhen Restaurant can only purchase certain types of wines from such supplier for the period from 31 August 2015 to 31 August 2016. Nevertheless, there is no minimum purchase requirement imposed on the Shenzhen Restaurant under this exclusive contract. The Group has not entered into any long-term contract with its existing food suppliers. As such, none of the Group's restaurants is contractually bound to make purchases from a specific food supplier. This helps the Group in maintaining flexibility and agility in operations and pricing and thus enables the Group to adapt to changing market demand and economic circumstances. The Group has established and maintained long-term relationships with a number of its suppliers. The Group's top five suppliers for the Track Record Period have been supplying raw materials to the Group for approximately 1 to 8 years. In addition, in order to ensure stable supply of food ingredients and minimise the risk of non-delivery, sub-standard products and supplier's default, the Group generally sources major raw materials from more than one supplier. As the Group places high emphasis on the quality of its raw materials, it will closely monitor whether the suppliers can achieve the aforesaid criteria and engage a new supplier if necessary.

The practice of central procurement has also contributed to enhancing the Group's sourcing capabilities. In respect of the Hong Kong restaurants, the Group purchases certain selected raw materials, mainly non-perishable food ingredients such as chilled meats and expensive dried seafood, in bulk and centralises all such purchases to achieve economies of scale. The Directors consider that bulk purchase enables the Group to negotiate for bulk

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purchase discounts, which lowers the Group's costs of production and assists the Group in offering food at reasonable prices. Centralisation of purchases is intended to simplify work procedures, minimise the labour required to perform the task, and maximise the efficiency of the food preparation process. The Directors believe that this strategy assists the Group in controlling the quality and consistency of its production and inventory levels by having provided it with ready access to a stable supply of price competitive food ingredients. It also helps the Group to minimise the risk of price fluctuation of the food ingredients.

### **Reliable and professional services to customers**

The Directors believe that the Group's reliable and professional services to its customers contribute to the establishment of its loyal patronage.

The Group strives to provide high quality dining environment to its customers. For example, the Shenzhen Restaurant has a spacious dining hall and dining rooms of various size, tableware with different patterns and fittings and decor, to accommodate the needs of Chinese banquets and dining services for large-scale events. On the other hand, the dining rooms of the restaurants in Hong Kong are set up by partitions and hence are easily adjustable in respect of their room sizes to accommodate the needs of customers and allow the restaurants to maximise their dining spaces. The restaurant situated in Tsim Sha Tsui, namely, The One Restaurant has spectacular view of the Victoria Harbour to attract customers, especially those customers who hold banquets and large-scale dinner gathering at night. In addition, all restaurant staff are required to be professionally uniformed during all working hours. The Group provides training and guidelines to its staff on service-related areas such as food handling and personal hygiene to enhance the quality of services provided to the customers. The Group aims to train all front-line service staff to be courteous, competent and responsive and to provide cordial hospitality to customers. The Group's restaurant heads hold daily briefing sessions with front-line service staff on the daily operations of restaurants. In these briefing sessions, the restaurant heads would review staff performance and reflect customers' feedbacks. The Directors believe that such daily performance reviews assist the front-line service staff in maintaining and improving service levels.

The Group strives to promote customer satisfaction through responding to their comments and feedbacks. All front-line service staff are expected to treat every request, enquiry or complaint by customers promptly and seriously. In case of any customer complaint in relation to food or quality of services, the restaurant managers would take initiatives to investigate and resolve the matter and attend to the customers promptly. The Directors believe that maintaining good customer satisfaction can assist the Group in strengthening its price-value proposition and building its brands and reputation.

### **Strong and experienced senior management team**

The Group has a strong and experienced management team with extensive experience in and knowledge of the local restaurant industry and restaurant management. The Group was founded in 1997 by Mr. Chan, an executive Director, the chairman of the Board and the chief executive officer who continues to lead the Group's management team. Mr. Chan is an



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accomplished restaurateur with over 17 years of operating experience in the food and restaurant industry. Mr. Chan founded the Group and acquired fundamental and practical knowledge of food preparation and selection of quality raw materials which helped to establish a solid foundation for a successful career in the restaurant industry. Having been deeply and actively involved in restaurant operations for more than 17 years, Mr. Chan has acquired an in-depth knowledge of fresh food quality and is well-versed in the operations and mechanisms of food supply and has built up relationship with suppliers of various food ingredients. Mr. Yuen Shun Chuen, the executive chef of the Group, has over 30 years of experience in the Chinese restaurant industry and served the Group for more than 2 years. Mr. Kwok King Hung, the head chef of dim sum kitchen of the Group, has approximately 20 years of experience in the food industry and served the Group for more than 5 years. Other senior management members also have ample management and operational experiences in their respective fields. The Directors believe that the Group's senior management team has acquired sound knowledge and in-depth understanding of Chinese cuisine, including different food types and food ingredients, cooking methods and techniques, and traditional Chinese recipes. The Directors believe that this also gives the Group a distinct competitive edge over some of its competitors as the senior management team is able to maintain and enhance the Group's goodwill and reputation with a particular emphasis on quality food and services. For detailed information about the industry experience of the Group's senior management, please refer to the section headed "Directors and Senior Management" in this document.

With such broad restaurant industry and management experience, the Directors believe that the Group's senior management team is competent to lead the Group's operations in a professional manner with a view to maximising profits. The Directors believe that the cumulative experience of the management team will continue to attract new customers and retain existing customers.

### **Well-executed restaurant network expansion strategy**

The Group's senior management team has executed the Group's restaurant network expansion through planned and stringent site selection criteria such as customer traffic, cost of rental and level of actual and potential competition, which helps the Group to capture its target customers with different preferences, spending patterns and needs.

Site selection is a critical consideration in the Group's restaurant network expansion strategy. An optimal site should be visible, accessible, convenient and attractive to the target customers. The Group would consider comprehensive data and relevant location requirements in selecting an optimal site. All of the Group's restaurants are located either in busy commercial districts, prominent shopping arcades or mid-class residential area to ensure a continuous and steady flow of potential customers. The Olympian Restaurant has a total saleable area of approximately 865 sq.m. and has a maximum seating capacity of 39 12-seat banquet tables enabling it to serve up to approximately 470 guests on a single occasion. As the Olympian Restaurant is situated in residential area, it is also the only restaurant of the Group which opens since early morning to cater for consumption needs of households. Besides, all of the Group's restaurants in Hong Kong and the PRC are located in districts with busy flow of

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passengers and well-developed transportation networks. In particular, The One Restaurant and the CWB Restaurant are situated in prime shopping districts with high tourist traffic, while the Sheung Wan Restaurant, the Beijing House Restaurant and the Shenzhen Restaurant are located in landmark commercial buildings with high traffic of working group. The restaurants are also situated in premises of either large commercial buildings or shopping arcades which are able to provide sound management services for tenants. The Directors believe that these factors would make it a preferred dining venue of its target customers, including but not limited to mid-to-high income households and tourists, as well as working population from prominent commercial areas.

The Directors believe that a well-executed restaurant expansion strategy helps to diversify the Group's restaurant portfolio and enables the Group to capture its target customers by providing food and services according to their preferences, spending patterns and needs.

### BUSINESS STRATEGIES

The Group's objective is to become a reputable multi-brand restaurant group with a diverse customer base in Hong Kong and the PRC. To this end, the Group intends to implement the following strategies:

#### **Expand in Hong Kong with multi-brand strategy**

Leverage on the success of the brand of Star of Canton restaurants in Hong Kong to provide Cantonese cuisine, the Group established the second brand of Beijing House at the end of October 2015 in order to diversify its customer base and broaden its source of income. The major step included the opening of the Group's first non-Cantonese cuisine restaurant in Sheung Wan under the Beijing House brand to provide Jingchuanhu cuisines, targeting customers looking for mid-to-high end dining experience of Jingchuanhu cuisines. The Group will closely monitor the performance of the its Jingchuanhu cuisine restaurant and the brand of Beijing House in the market and develop a balanced resources allocation strategy to the two brands in order to maximize the Group's returns on investment.

#### **Progressive expansion in the PRC market**

Founded on the success of the Group's first restaurant in the PRC market, in particular, Shenzhen, the PRC, the Group intends to progressively expand into the PRC market. Shenzhen is chosen to be the target city for expansion due to its prominent position as a bridging between Hong Kong and mainland China with a higher percentage of high-income group, coupled with many people from Hong Kong visiting there for business and leisure purposes. The Group currently plans to open two restaurants serving Cantonese cuisine with a focus on the mid-to-high end income group during 2017. As at the Latest Practicable Date, the Group has entered into tenancy agreements for renting of premises situated at Qianhai and Futian District of Shenzhen for these two new restaurants.

These new restaurants will also be designed to be suitable venues for customers to hold celebratory and banquets, further enhancing the Group's brand awareness. The Directors are of the view that the increasing disposable income and an increasing urbanization rate in China



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have created an opportunity for the Group to cater to domestic clientele that are increasingly looking to frequent restaurants they deem as high quality but at affordable prices. The Directors believe the Group can leverage its existing experience and expertise in its the Shenzhen Restaurant’s operation in providing value-for-money, quality food and services to cater to this clientele in the PRC market. To attract these target customers, the Group will maintain its value-for-money approach and strong commitment to food safety, a concern that resonates with mainland Chinese consumers.

As of the Latest Practicable Date, the buildings of the premises of the above-mentioned two restaurants were still under construction. According to the tenancy agreements, the total saleable areas of the two restaurants are approximately 2,803 sq.m. and 1,721 sq.m. respectively. The total planned capital expenditure for the Group’s network expansion in the PRC market is expected to be approximately HK\$[REDACTED] and HK\$[REDACTED] for years ending 31 December 2016 and 2017 respectively, which will be funded partially by the net proceeds of the [REDACTED] and the remaining by internal resources generated from operating activities of the Group. As at the Latest Practicable Date, the Group paid an aggregate of approximately HK\$2.1 million as rental deposits for its tentative restaurant premises for its network expansion in the PRC market.

### **Continue to promote brand image and recognition through marketing initiatives**

The Group plans to promote its “Star of Canton” and “Beijing House” brands to differentiate itself from its competitors in the Chinese restaurant market in Hong Kong and the PRC as well as increasing customer traffic through its marketing and promotional initiatives. The Group’s major marketing and promotional initiatives include the following:

- *Promote overall brand image:* As a group-wide marketing strategy, the Group will continue to build its brand image as a Hong Kong brand representing value-for-money, quality Chinese cuisine and a pleasant dining experience. The Group intends to strengthen its integrated marketing initiatives including internet platforms and conventional media channels, such as radio and magazines, and using a celebrity in the food and beverage industry as the Group’s spokesperson in order to promote its overall brand image and build customer awareness.
- *Promote featured products or signature dishes to increase customer traffic:* The Directors believe its signature dish of braised abalone, which was promoted by the Group’s spokesperson, who is a celebrity in the food and beverage industry, was successful in boosting customer traffic across its restaurants during the Track Record Period. The Group intends to continue to employ featured products or signature dishes marketing campaigns coupled with suitable spokespersons, with an aim to further increase customer traffic at its restaurants.
- *Adopt credit card promotional campaigns to increase customer traffic:* The Group will continue to collaborate with various banks to access their established membership network by offering promotions to their credit card members. The Directors believe these collaborative efforts enable the Group to direct its marketing efforts to a highly targeted group of potential customers in a cost-effective manner.

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- *Enhance marketing initiatives in the PRC:* As food safety is an important issue in China, the Group will continue to promote its brand as a reputable brand in Hong Kong's Chinese restaurant market and emphasize to customers in the PRC its quality food ingredients and the stringent quality control used in its food preparation process. In addition, the Group plans to open new restaurants in landmark locations or high-traffic areas in Shenzhen, the PRC to promote brand awareness.

### Enhancement of existing restaurant facilities

In addition to the quality of food and services, the Directors believe that ambience of the restaurants is also important to the customers' dining experience. In order to stay competitive in the market, the Group incurred approximately HK\$8.4 million of renovation costs and equipment purchase costs to refurbish the Olympian Restaurant in 2013. The Group plans to refurbish The One restaurant with estimated renovation costs of HK\$[REDACTED] by end of 2016, which will be funded by the net proceeds from the [REDACTED]. After [REDACTED], the Group will continue to enhance the facilities and equipment of its existing restaurants with the aim to provide its customers with comfortable dining environment.

### Strengthening of staff training

The Group is committed to enhance the knowledge and qualifications of its staff. The Group has provided and shall continue to provide on-the-job trainings to employees in relation to food ingredients preparation and preservation, customer service, flow of food production, hygiene conditions of the kitchen and quality control in different aspects of the operations of restaurants based on their job duties in order to improve their practical business skills.

## BUSINESS, RESTAURANTS AND CUSTOMERS

The Group's business can be classified into two major service categories:

- serving Chinese cuisine including Cantonese dim sum and main dishes, fresh seafood delicacies and specialty Chinese cuisine such as roast suckling pigs, braised abalone and sea cucumber; and
- providing Chinese banquet and dining services for large-scale events.

As at the Latest Practicable Date, the Group operated four restaurants in Hong Kong and one restaurant in China under the same brand, namely, Star of Canton (利寶閣) to provide Cantonese cuisine, as well as a restaurant in Hong Kong under the brand of Beijing House (京香閣) to provide Jingchuanhu cuisine. During the Track Record Period, the business of I-Square Restaurant ceased in November 2015. Apart from the opening of the Shenzhen Restaurant in October 2013 and Sheung Wan Restaurant and Beijing House Restaurant at the end of October 2015, there was no other change or movement of the Group's restaurants during the Track Record Period.

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The following table sets forth the general information of each of the Group’s restaurants operated during the Track Record Period and up to the Latest Practicable Date:

	Name of restaurant	Brand	Location	Featured services/cuisine	Year of commencement of operation	Approximate total saleable area (sq.m.)	Year ended 31 December 2013					Year ended 31 December 2014					Year ended 31 December 2015					
							Estimated number of customer visits (Note 1)	Estimated seating capacity (seats) (Note 2)	Number of operation days (Note 3)	Average daily revenue (HKD) (Note 4)	Estimated seat turnover rate (times) (Note 5)	Estimated average spending per customer (HKD) (Note 6)	Estimated number of customer visits	Number of operation days	Average daily revenue (HKD)	Estimated seat turnover rate (times)	Estimated average spending per customer (HKD)	Estimated number of customer visits	Number of operation days	Average daily revenue (HKD)	Estimated seat turnover rate (times)	Estimated average spending per customer (HKD)
1	CWB Restaurant	Star of Canton	21st Floor, Lee Theatre Plaza, 99 Percival Street, Causeway Bay, Hong Kong	Provision of Cantonese cuisine and Chinese banquet and dining services for large-scale events	1998	757	250	172,316	365	92,599	1.9	196	167,529	365	98,950	1.8	216	168,162	365	103,011	1.8	224
2	Olympian Restaurant	Star of Canton	Shop UG01, Upper Ground Floor, Olympian City Two, 18 Hoi Ting Road, West Kowloon, Hong Kong	Provision of Cantonese cuisine and Chinese banquet and dining services for large-scale events	2001	865	320	299,619 (Note 6)	329 (Note 7)	131,783	2.8	145	436,501	365	154,734	3.7	129	412,760	365	143,937	3.5	127
3	1-Square Restaurant (ceased operations in November 2015)	Star of Canton	24th Floor, ISQUARE, 35-39 Nathan Road, Tsim Sha Tsui, Kowloon	Provision of Cantonese cuisine and Chinese banquet and dining services for large-scale events	2010	933	300	232,439	365	146,834	2.1	231	226,977	365	155,600	2.1	250	185,592	321	150,650	1.9	261
4	The One Restaurant	Star of Canton	17th Floor, The ONE, 100 Nathan Road, Tsim Sha Tsui, Hong Kong	Provision of Cantonese cuisine and Chinese banquet and dining services for large-scale events	2010	598	200	124,229	365	103,665	1.7	305	114,204	365	98,681	1.6	315	111,855	365	94,953	1.5	310
5	Shenzhen Restaurant	Star of Canton	Unit 1, Level 2, Tower 3, Kerry Plaza, No. 1-1 Zhong Xin Si Road, Futian District, Shenzhen City, China	Provision of Cantonese cuisine and Chinese banquet and dining services for large-scale events	2013	2,980	522	N/A (Note 8)	69	87,480	N/A (Note 8)	N/A (Note 8)	276,571 (Note 9)	365	165,748	1.5	219	309,679	365	202,186	1.6	238
6	Sheung Wan Restaurant (Note 10)	Star of Canton	2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong	Provision of Cantonese cuisine and Chinese banquet and dining services for large-scale events	2015	1,532	320	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	35,882	63	108,773	1.8	191
7	Beijing House Restaurant (Note 10)	Beijing House	(Note 11)	Provision of Jingchuanhui cuisine	2015	(Note 11)	200	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	15,591	63	48,858	1.2	197

### Notes:

- Estimated seating capacity represents the total number of seats available for regular dining service in the relevant restaurant, and is estimated by the Directors after taking into account the likely possible number of seats occupied by diners per table. The Directors consider that such estimation would best reflect the restaurant’s capacity based on the fact that the seats in a single table may not be fully taken up in each table turnover as diners are generally not willing to share table with other diners.

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2. Estimated number of customer visits represents the estimated total number of customer counts (including banquet customers) during the relevant period, with source data generated from the Group's computerised outlet management system.
3. Average daily revenue is calculated by dividing the total revenue of the relevant restaurant during the relevant period by number of operation days.
4. Estimated seat turnover rate is calculated by dividing the estimated number of customers visits by the outcome of multiplying the estimated seating capacity by the number of operation days.
5. Estimated average spending per customer is calculated by dividing the total revenue of the relevant restaurant during the relevant period by estimated number of customer visits.
6. For Olympian Restaurant, information on number of customer visits is only available since 8 May 2013 as those information prior to 8 May 2013 was no longer available due to the change of the software of the restaurant's computerised outlet management system during the relevant period from 2 April to 7 May 2013. Hence, the estimated number of customer visits for the year ended 31 December 2013 is derived from pro-rata estimation based on the number of customer visits of 216,746 during the period of 238 operation days from June to December 2013.
7. Olympian Restaurant was temporarily closed for renovation from 2 April to 7 May 2013.
8. For Shenzhen Restaurant, information on number of customer visits was not available before July 2014 as those information prior to July 2014 was no longer available due to the change of the software of the restaurant's computerised outlet management system in July 2014. Hence, information on estimated seat turnover rate and estimated average spending per customer for the year ended 31 December 2013 is not available.
9. For Shenzhen Restaurant, information on number of customer visits is only available since July 2014 as those information prior to July 2014 was no longer available due to the change of the software of the restaurant's computerised outlet management system in July 2014. Hence, the estimated number of customer visits for the year ended 31 December 2014 is derived from pro-rata estimation based on the number of customer visits of 139,422 during the period of 184 operation days from July to December 2014.
10. Sheung Wan Restaurant and Beijing House Restaurant were opened at the end of October 2015. Hence, no information on estimated number of customer visits, number of operation days, average daily revenue, estimated seat turnover rate and estimated average spending per customer is presented for the years ended 31 December 2013 and 2014. In respect of the information of estimated number of customer visits, estimated seat turnover rate and estimated average spending per customer of Sheung Wan Restaurant and Beijing House Restaurant for the year ended 31 December 2015, the Directors consider that such information based on approximately two months' operation since the soft opening of the restaurants at the end of October 2015 may not be meaningful for the purpose of comparison with other restaurants or informative for understanding the full-year operation situation of the restaurants.
11. Sheung Wan Restaurant and Beijing House Restaurant are located at shops adjacent to each other in the same premises and use the same address for business purpose. The two restaurants are under the same lease and the approximate total saleable area of 1,532 sq.m. is shared between the two restaurants.

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The increase in estimated number of customer visits of the Olympian Restaurant for the year ended 31 December 2014 as compared to that of 2013 was mainly due to increase in customer traffic after the renovation of the restaurant in the second quarter of 2013. The Directors considered that the decreases in estimated number of customer visits of the CWB Restaurant, I-Square Restaurant (which ceased operations in November 2015) and The One Restaurant for the year ended 31 December 2014 as compared to that of 2013 were mainly due to the political event of "Occupy Central Movement" from early September to early December 2014 which seriously affected the customer traffic at Causeway Bay and Tsim Sha Tsui where these three restaurants operate, the effect of which was extended to early 2015.

Except for the Sheung Wan Restaurant and the Beijing House Restaurant which were newly opened at the end of October 2015, the estimated seat turnover rates of the Group's restaurants in Hong Kong for the year ended 31 December 2013, 2014 and 2015 ranged approximately from 1.7 times to 2.8 times, from 1.6 times to 3.7 times and from 1.5 times to 3.5 times respectively. The upper end of the range of the seat turnover rate during each of the above periods was attributable to the Olympian Restaurant, as its restaurant business hours is longer than that of other restaurants due to the opening of breakfast session of the restaurant, and the increase in its seat turnover rate from approximately 2.8 times for the year ended 31 December 2013 to approximately 3.7 times for the year ended 31 December 2014 was mainly due to the increase in customer traffic of the Olympian Restaurant after its renovation in May 2013 and the opening of breakfast session since then. The estimated seat turnover rates of other restaurants were relatively stable during the Track Record Period and ranged approximately from 1.8 times to 1.9 times for the CWB Restaurant, approximately from 1.9 times to 2.1 times for the I-Square Restaurant (which ceased operations in November 2015), and approximately from 1.5 times to 1.7 times for The One Restaurant. The Shenzhen Restaurant was open in October 2013, its estimated seat turnover rates for the two years ended 31 December 2015 were approximately 1.5 times and 1.6 times respectively. The estimated seat turnover rate of the Sheung Wan Restaurant for about two month's ended 31 December 2015 was approximately 1.8 times, which was comparable to that of the CWB Restaurant which was also located in commercial district of the Hong Kong Island. The Beijing House Restaurant, being a new brand of the Group providing Jingchuanhu cuisine, recorded a relatively lower estimated seat turnover rate of approximately 1.2 times during the initial period of operation of about two months' ended 31 December 2015. The Directors expect that the seat turnover rate of the Beijing House Restaurant will be gradually improved upon the enhancement of the Group's marketing and promotion activities on the new brand during the year ending 31 December 2016.

Except for the Sheung Wan Restaurant and the Beijing House Restaurant which were newly opened at the end of October 2015, the estimated average spending per customer of the Group's restaurants in Hong Kong for the year ended 31 December 2013, 2014 and 2015 ranged approximately from HK\$145 to HK\$305, from HK\$129 to HK\$315 and from HK\$127 to HK\$310 respectively. The lower end and upper end of the range of average spending per customer during the above periods were attributable to the Olympian Restaurant and The One Restaurant respectively. The fluctuation in estimated average spending per customer of each restaurant during the Track Record Period was affected by factors including, among others,

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general inflation, the number of banquets held during the relevant periods and the average spending of customers for large-scale banquets. As the average spending per banquet customer is higher than the average spending per normal dining customer, the increase in number of banquet during a period as compared to a previous period would contribute to the increase in average spending per customer for a restaurant. For the Olympian Restaurant, the decrease in average spending per customer for the year ended 31 December 2014 as compared to that of 2013 was mainly due to the opening of breakfast session since May 2013, where the spending for breakfast is normally less than the spending for lunch or dinner, and hence the full-year effect of the breakfast session during the year ended 31 December 2014 caused the decrease in average spending per customer as compared to the year ended 31 December 2013. For Shenzhen Restaurant, its estimated average spending per customer for the year ended 31 December 2014 and 2015 were approximately HK\$219 and HK\$238 respectively. Such increase was mainly due to the gradual put on track of the restaurant's operation since the commencement of its business in October 2013. The changes in average daily revenue of the restaurants during the Track Record Period were generally in line with the changes in estimated average spending per customer. The estimated average spending per customer of the Sheung Wan Restaurant and the Beijing House Restaurant for about two months' ended 31 December 2015 were approximately HK\$191 and HK\$197 respectively, which were comparable to that of the CWB Restaurant for the year ended 31 December 2015. In order to promote the opening of the Sheung Wan Restaurant and the Beijing House Restaurant and to attract new customers, the two restaurants offered certain special discounts to customers during their first month of operation. The Directors expect the estimated average spending per customer of these two restaurants to increase for the year ending 31 December 2016 as the special discount period expired at the end of 2015.

### **Restaurants under Star of Canton**

#### ***Target customers***

The restaurants in both Hong Kong and the PRC under Star of Canton target customers in the middle-to-high income group with a preference for Cantonese cuisine and quality food at reasonable prices, as well as an elegant and comfortable dining environment.

In March 2015, the Shenzhen Restaurant, one of the Group's restaurants, was awarded by a website, namely, dianping.com (大眾點評網), as a Five Star Merchant (五星商戶) of Year 2014, a distinction awarded to those quality merchants based on number of positive commentaries made by users of the website. Dianping.com was established in 2003 and operates as a commentary website providing merchant information and consumption concessions in respect of catering, shopping, leisure and entertainment, as well as acting as an interactive commentary platform for internet users.

#### ***Location and dining environment***

All the restaurants in Hong Kong and the PRC are currently located in prominent commercial and shopping areas or shopping and residential complex which are filled with commercial, residential and tourist establishments and populated with households and



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white-collar class of middle-to-high income. All of the Group's restaurants are located either in busy commercial districts, shopping arcades or residential area to ensure a continuous and steady flow of potential customers.

The geographical data of the locations of the Group's restaurants are briefly described as follows:

### *Causeway Bay*

Causeway Bay is one of Hong Kong's major shopping districts. It includes many commercial and shopping complex and is one of the most crowded areas in Hong Kong. Many shops and diners are open until well after midnight.

### *Olympian City*

Olympian City is a shopping and residential complex built on reclaimed land in Tai Kok Tsui, Kowloon, Hong Kong, next to the Olympian Station of the Mass Transit Railway ("MTR"). It is one of the main shopping and residential areas in West Kowloon. There are large middle-class private housing estates and office towers in Olympian City which was developed in three phases. There are also many other residential estates surrounding Olympian City and Olympian Station of the MTR. It is adjacent to Mong Kok which is a busy commercial and shopping district with well-developed transportation network.

The Olympian Restaurant was under renovation during the period from early April to early May of 2013 and therefore suspended from operation during such period. The renovated environment provides a new and comfortable impression for customers. The restaurant is equipped with a huge-size television screen situated at the dining hall to provide television channel broadcasting for customers. The Group incurred a total amount of approximately HK\$8.4 million for the renovation and installation of new equipment and facilities of the Olympian Restaurant.

### *Tsim Sha Tsui*

Tsim Sha Tsui is a major tourist hub in metropolitan Hong Kong, with many shops and restaurants that cater to tourists. Many of Hong Kong's tourist spots are located in the area and it has the highest concentration of hotels in Hong Kong. The extensive pedestrian subway network connects various locations in the area.

The One Restaurant situated in Tsim Sha Tsui is attractive to customers for holding banquets and other large-scale dining events as the venues have spectacular night view of the Victoria Harbour.

### *Sheung Wan*

Sheung Wan is located in the north-west of Hong Kong Island. It is part of the Central and Western District of Hong Kong. It comprises commercial and residential areas and is adjacent to the Central, the most prominent banking district of Hong Kong.

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The Sheung Wan Restaurant and the Beijing House Restaurant were newly opened at the end of October 2015 with brand new decoration and design which attract potential customers wishing to visit new restaurants for dining. The Group incurred a total amount of approximately HK\$19.7 million for the renovation and installation of new equipment and facilities for the Sheung Wan Restaurant and the Beijing House Restaurant which are located at shops adjacent to each other in the same premises.

### *Futian District (Shenzhen, the PRC)*

Futian District is one of six districts of the city of Shenzhen, the PRC. It is home to many high-rises, with some of the most important commercial buildings in Shenzhen. The area comprises many shopping malls and newly built office towers. Its transportation systems include many stations of Shenzhen mass transit railway and major highways.

The Shenzhen Restaurant is located in one of the landmark commercial buildings in Futian District, which is attractive to the working population from nearby commercial areas.

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### *Cuisine*

The restaurants under Star of Canton offer dim sum during breakfast and lunch hours throughout the year. Each of them has a master menu serving various kinds of Chinese main dishes, a seafood menu serving fresh seafood delicacies and some special menus serving cuisine designed and promoted by individual restaurants. In addition, each Star of Canton Restaurant has a banquet menu to accommodate banquets and dining gathering parties. All the Star of Canton Restaurants strive to provide fresh seafood of good quality coupled with authentic cooking technique. The braised abalone is the signature dish of Star of Canton Restaurants and is popular due to its quality food ingredient and cooking technique.

### *Opening hours*

Each restaurant is open for around 12 to 14 hours a day to serve a wide range of customers and provide day and night dining choices. As at 31 January 2016, the restaurants had a total of 194 and 176 employees in Hong Kong and China respectively, and the front-line service staff generally works in two shifts.

### **Beijing House Restaurant**

#### *Target customers*

The restaurant in Hong Kong under the brand name Beijing House, which was opened at the end of October 2015, targets customers in the middle-to-high income group with a preference for Jingchuanhu cuisines and quality food at reasonable prices, as well as a warm and relatively quiet dining environment.

#### *Location and dining environment*

The venue of the Beijing House Restaurant is adjacent to that of the Sheung Wan Restaurant. Please refer to the sub-paragraph headed “Sheung Wan” of the sub-section headed “Business – Business, restaurants and customers – Restaurants under Star of Canton” in this document.

### *Cuisine*

It provides specialty and innovative dishes such as roast duck and steamed pork dumpling to serve potential customers preferring Jingchuanhu cuisines.

### *Opening hours*

The Beijing House Restaurant is open for around 12 hours a day to provide day and night dining choices. The front-line service staff generally works in two shifts.

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### SALES AND MARKETING

#### Sales

The table below sets forth the breakdown of the Group's turnover in respect of each of its restaurants and as a percentage of its total turnover during the Track Record Period:

	For the year ended 31 December					
	2013		2014		2015	
	Revenue HK\$'000	% of total revenue	Revenue HK\$'000	% of total revenue	Revenue HK\$'000	% of total revenue
CWB Restaurant	33,798	19.4	36,117	14.7	37,599	14.6
Olympian Restaurant	43,357	24.8	56,478	23.0	52,537	20.5
I-Square Restaurant (Note 1)	53,594	30.7	56,794	23.1	48,359	18.8
The One Restaurant	37,838	21.7	36,018	14.6	34,657	13.5
Sheung Wan Restaurant (Note 2)	–	–	–	–	6,853	2.7
Beijing House Restaurant (Note 2)	–	–	–	–	3,078	1.2
Shenzhen Restaurant	6,036	3.4	60,498	24.6	73,798	28.7
	<u>174,623</u>	<u>100.0</u>	<u>245,905</u>	<u>100.0</u>	<u>256,881</u>	<u>100.0</u>

Notes:

1. The I-Square Restaurant ceased operations in November 2015.
2. The Sheung Wan Restaurant and the Beijing House Restaurant were opened at the end of October 2015.

#### Pricing policy

In deciding the price of each menu item, the Group takes into account the costs of raw materials and food ingredients, target profit margins, general market trends, spending patterns and purchasing power of customers and prices set by competitors. Given that the Group aims to maintain its positioning in the mid-to-high end market, it strives to provide quality cuisine at reasonable prices and an elegant dining environment. The Directors believe that even in times of cost pressures, the Group will be capable of adjusting the ingredients used, with an aim to maintain the portion size and quality of food. The Directors believe that such pricing policy helps to create an attractive price-value proposition typically favoured by customers.

The Group generally charges similar prices across all Star of Canton Restaurants in Hong Kong. The Group also allows for limited price adjustments in the menu items in response to promotion events launched by each restaurant. For the Shenzhen Restaurant, the Group generally charges lower prices as the prices of most food ingredients are generally lower in Shenzhen. However, the prices of certain dishes such as shark fins and sea cucumbers are higher in the Shenzhen Restaurant as the PRC government imposes import tax on such food ingredients, which result in higher procurement cost for such food ingredients.

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### Settlement and Cash Management

The vast majority of the Group's customers settle their dining bills by cash or credit cards. For patrons of the Group's dining services for banquets or celebratory events, customers can also settle bills by cashier orders. For the Shenzhen Restaurant, it also issued store-value membership cards to certain customers who wished to deposit a certain sum with the restaurant as prepayment for the sake of convenience of settlement after meals. In such cases, the customers can settle their bills by deducting the bill amount against their prepaid amount, and such settlement method is also regarded as settlement by cash from the restaurant's perspective.

As many customers pay cash for settlement of bills, the Group's restaurants handle considerable amounts of cash every day. To prevent any misappropriation of cash, the Group implements a cash management system with a set of cash handling and custody procedures that apply to all the Group's restaurants.

Orders placed by customers are all instantly recorded in an intranet system which is accessible by cashiers and various production units of the restaurants. All orders will only be processed by various production units of the restaurants based on orders in the intranet system. Based on the information recorded in the intranet system, bills are issued to customers accordingly. In order to prevent misappropriation and illegal uses of cash, the Group implements specific procedures on cash custody, such as segregation of duties and daily reconciliation of the cash receipt with the cash sales record to make sure that the cash is correctly stated and reported on a daily basis. The responsible cash register operators reconcile the day's cash sales records generated by the intranet system with the actual cash and credit card receipts on a daily basis to ensure the record in the restaurant is accurate and complete and matches with the cash deposited, and another accounting staff is responsible for ensuring that the daily sales and expenses have been properly recorded and accounted for at the close of business each day. The daily records and cash are then collected by the treasurer of the respective restaurant. The Group also adopts a cash management and delivery system in each of the restaurants. Each restaurant has designated staff to deposit the cash received on the previous day to the bank on a daily basis. In case the banks are closed for few non-business days, the cash collected in the previous days will be deposited to the bank on the following business day. The accounts department keeps records of the cash delivered to the bank.

Given that the bill amounts for banquets and other large-scale events are significant, the Group accepts cashier orders as an alternative payment option. For Shenzhen Restaurant, certain corporate customers with established relationships are generally allowed to settle accumulated bill amounts within 30 days, and such accumulated payments in arrears generally do not exceed RMB20,000 for those corporate customers.

In respect of the bills settled by credit cards, the Group did not have any significant amount of receivables from credit card companies throughout the Track Record Period as it generally receives remittance from credit card companies a few days after the day on which the credit card transaction is approved.

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In order to avoid misappropriation of cash by the employees of the Group, the Group implements internal procedures to enhance the books and records system. Such measures include but not limited to the segregation of duties between the front-line service staff and cashier, pursuant to which the front-line service staff are responsible for placing food orders and arranging bill settlement by the customers, then the cashier will check and deposit the cash received from the customers. Any discrepancies of invoices with the ordering record or cancellation of invoices require the approval from the operation manager. The internal control policies of the Group include measures and procedures to prevent occurrence of fraud, theft, bribery, corruption and other misconduct involving employees, customers and other third parties, including for instance, illegitimate rebates from suppliers. For example, it is provided in the anti-fraud policy of staff manual of the Group that staff is strictly prohibited from receiving gifts from customers and suppliers. In the event that employees are skeptical on any inappropriate instances, they are encouraged to report to the senior management of the Group for further investigation.

To the best knowledge of the Directors, the Group did not experience any cash embezzlement by employees during the Track Record Period and the Group has not encountered any of the aforementioned instances including for instance, illegitimate rebates from suppliers, during the Track Record Period. The Group considers its internal control policies and procedures to be adequate.

### Marketing

Instead of relying on traditional paid advertising in mass media such as television and newspapers, the Group has adopted a different and diversified marketing strategy.

Nowadays, many restaurant customers would, prior to deciding which restaurant to go, research on a restaurant's ratings posted by diners via internet, review comments from food critics in various media or consider word-of-mouth publicity. The Directors consider that traditional paid advertising can only generate limited exposure in the local restaurant industry. The internet, in particular, has become increasingly influential in establishing a restaurant's reputation as there is an increasing trend that opinions about a restaurant could be shaped by the ratings, recommendations and criticisms posted by diners or food critics on discussion forums, food blogs or food websites. Instead of incurring significant capital expenditures on traditional paid advertising, the Group devotes its resources to constantly improving quality levels in food and dining services offered at reasonable prices, which the Directors believe it could result in positive comments from diners and food critics, and hence bring in more sales.

The Directors consider that the recommendations and criticisms posted by diners or food critics on discussion forums, food blogs or food websites can deliver their comments on quality of the food and services of the Group to potential diners, which the Directors believe to be generally perceived as more relevant and reliable than traditional paid advertising. The Directors also consider such marketing channel to be able to tap into a broader level of potential diners who are conscious about food and service quality of the restaurants. The Group's marketing strategies are considered by the Directors to be effective with the award of



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Five Star Merchant (五星商戶) of Year 2014 in March 2015 by Shenzhen Restaurant from an influential commentary website, namely, dianping.com (大眾點評網), which is a distinction awarded to those quality merchants which based on number of positive commentaries made by users of the website. Dianping.com was established in 2003 and operates as a commentary website providing merchant information and consumption concessions in respect of catering, shopping, leisure and entertainment, as well as acting as an interactive commentary platform for internet users. The Directors believe that the dianping.com is currently one of the most well-known and influential electronic consumption guides in China.

Besides, the Group launched its [www.starofcanton.com.hk](http://www.starofcanton.com.hk) website to provide an electronic platform to promote its restaurants. It updates the website constantly so as to highlight the restaurants' promotions from time to time. Going forward, the Group would adopt a marketing strategy that leverages the increased publicity and consumer awareness generated by favourable comments and restaurant ratings on website which provide commentary electronic platform and discussion forum for catering industry. For more information, please refer to the paragraph headed "Intellectual property rights" in this section.

The Group regularly updates the main menus of its restaurants to introduce new dishes. It also makes variations to its dishes and food prices with the change of seasons and trends, conforming to modern dietetics. The Group posts eye-catching posters promoting popular dishes in its restaurants. The Group also places advertisement signs within the shopping arcades and commercial buildings in which its restaurants operate, as well as inside the premises of Huanggang Port which is a port of entry on the border between mainland China and Hong Kong. Promotional pamphlets are distributed in the Group's restaurants to promote new, seasonal or discounted dishes. In order to promote brand awareness, the Group distributes free coupons to customers after they spent certain amounts in its restaurants and sells discounted coupons through website operators.

In addition, the Shenzhen Restaurant has a designated marketing team to conduct regular visits to corporate customers to promote the image and popular dishes of the restaurant. The Directors believe such face-to-face promotion to be a successful marketing strategy.

Furthermore, the favourable comments on the Group's restaurants on magazines and newspaper and websites of Hong Kong and China, invitations to television and magazine interviews and the loyal patronage earned by the Group through word-of-mouth are also considered to be the results of the Group's marketing strategy. The Directors consider that the implication of the marketing strategy can be demonstrated by the overall increase in turnover of the Group's restaurants in Hong Kong and China during the Track Record Period. The Group would continue to evaluate the effectiveness of the marketing strategy on the Group's business and performance by monitoring the number of customer visits and average consumption amount of the customers in the restaurants of the Group.

The Directors also believe that the corporate image of the Group would be enhanced when the Company becomes a Hong Kong listed company.

For the years ended 31 December 2013, 2014 and 2015, the total marketing expenditure for advertising and promotions of the Group amounted to approximately HK\$3.6 million, HK\$4.4 million and HK\$3.6 million respectively.

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### Brand management strategy

As at the Latest Practicable Date, the Group operated four restaurants in Hong Kong and one restaurant in China under the same brand, namely, Star of Canton (利寶閣) to provide Cantonese cuisine. The Group also operates a restaurant under a new brand name of Beijing House (京香閣) to provide Jingchuanhu cuisines. The two brands of the Group have different target market positions which the Directors consider the differentiation can address the different needs of customers and enlarge its market share in the Chinese restaurant industry in Hong Kong and China, which will further promote the Group's business. The market positions of the two brands of the Group are as follows:

- Star of Canton Restaurants target customers in the middle-to-high income groups which prefer Cantonese cuisine and require Chinese banquet and dining services for large-scale events, such as festive gatherings, rites and ceremonies and other celebratory events, at reasonable prices and under an elegant and comfortable dining environment; and
- Beijing House Restaurant targets customers in the middle-to-high income groups with a preference for quality Jingchuanhu cuisines at reasonable prices and under a warm and relative quite dining environment.

In order to differentiate the market positions of the brands, the restaurants under Star of Canton develop new menu items based on traditional Cantonese dish recipes and offer quality food at reasonable and affordable prices, while Beijing House Restaurant is more focused on serving specialty dishes of non-Cantonese style, in particular, Jingchuanhu cuisines which are customised for customers wishing to try other Chinese cuisines.

In addition, the Group also differentiates the brands in terms of the interior design of the restaurants, where Star of Canton Restaurants were decorated in a way to provide a luminous and spacious environment suitable for festive occasions and celebratory events using its sizeable dining area which features, among others, high ceiling, luxurious chandeliers and adequate lighting. Instead, Beijing House Restaurant aims to create a warm and relatively quiet environment suitable for family and business dining gathering of smaller group in terms of number of patrons per table, and feature, among others, delicate tableware and warm lighting.

The Directors consider that the Group's branding strategy is able to diversify the Group's Chinese catering business and capture different customer segments. The establishment of Beijing House Restaurant aims to expand the business of the Group into the provision of non-Cantonese cuisines in order to offer different dining choices for potential customers. Although the Sheung Wan Restaurant and the Beijing House Restaurant are located in the same commercial and shopping plaza and are adjacent to each other, the Directors believe potential customers of white-collar working group seeking luncheons during busy business hours and customers seeking business dinners in the district are abundant that the two restaurants providing different types of cuisine would not constitute direct competition, and instead, are complementary to each other to satisfy the different needs of potential customers.

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### Customers

Due to the nature of the Group’s business, the majority of its customers consist of walk-in customers from the general public. As such, the Directors consider that it is not practicable to identify the five largest customers of the Group for the Track Record Period. The Group did not rely on any single customer during the Track Record Period.

### RAW MATERIALS AND SUPPLIERS

The Group focuses on the quality of food ingredients and the food preparation process, including food ingredients procurement, preservation, preparation, processing and storage.

#### Raw materials

The major raw materials purchased by the Group are food ingredients, including but not limited to, vegetables, fresh meats, seafood, dried foods, chilled meats, beverages and seasonings, originating from countries such as China, Hong Kong, Japan, Vietnam and the United States of America. Except for the Shenzhen Restaurant which sources its food ingredients and other raw materials from local suppliers in China, the Group’s restaurants in Hong Kong mainly source their food ingredients and other raw materials from local suppliers in Hong Kong. The Group would also centralise the procurement of certain selected food ingredients, mainly non-perishable food ingredients such as chilled meats and expensive dried seafood required by all the Group’s restaurants in Hong Kong, which would allow the Group to achieve consistent quality, obtain bulk purchase discount and ensure that purchase prices remain at competitive levels. The Directors believe that the Group’s suppliers would take into account the quality, demand, supply, specifications, duration of supply agreement, logistic arrangement, seasonal factor, source of supply and relationship with the Group when fixing the prices of their food ingredients. The Directors are of the view that the prices of the raw materials the Group obtained during the Track Record Period were consistent with prevailing market prices, and believe that the purchase prices of food ingredients will continue to follow market prices under normal operating and marketing conditions. Other key supplies required by the Group include kitchen and restaurant equipment and utensils are sourced from various suppliers.

According to the experience of the Directors and senior management, dried foods have a shelf life of approximately five to ten years, chilled meats have a shelf life of approximately one year, fresh seafood has a shelf life of approximately one week, and vegetables have a shelf life of approximately two days. The Group generally turnovers its inventories at a faster rate than their shelf lives, which the Group believes to be able to ensure the quality and freshness of the dishes. For average inventory turnover days of the Group’s food ingredients, please see the sub-section headed “Financial Information – Analysis of various items from the combined statements of financial position – Inventories” in this document.

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The Group's major food ingredients purchased during the Track Record Period experienced various degrees of price fluctuations as below:

- Fresh seafood: By comparing the average purchase price of the major types of fresh seafood the Group used in 2014, which were crab and a few types of grouper fish, the Group noted the average price changes ranged from a decrease of approximately 2.2% to an increase of approximately 27.8% in 2014 as compared to 2013. By comparing the average purchase price of the major types of fresh seafood the Group used in 2015, which were crab and a few types of grouper fish, the Group noted the average price changes ranged from a decrease of approximately 20.2% to an increase of approximately 7.1% in 2015 as compared to 2014.
- High-value dried foods: By comparing the average purchase price of the major types of high-value dried foods the Group used in 2014, which were two types of dried scallop, the Group noted the average price changes ranged from an increase of approximately 0.8% to an increase of approximately 7.4% in 2014 as compared to 2013. By comparing the average purchase price of the major types of high-value dried foods the Group used in 2015, which were canned six-head abalone, dried shark fin and a type of dried scallop, the Group noted the average price changes ranged from a decrease of approximately 10.2% to an increase of approximately 5.9% in 2015 as compared to 2014.
- Chilled and fresh meats: By comparing the average purchase price of the major types of chilled and fresh meats the Group used in 2014, which were chilled chicken, chilled beef steak and fresh pork, the Group noted the average price changes ranged from an increase of approximately 5.5% to an increase of approximately 18.1% in 2014 as compared to 2013. By comparing the average purchase price of the major types of chilled and fresh meats the Group used in 2015, which were chilled chicken, chilled beef steak and fresh pork, the Group noted the average price changes ranged from a decrease of approximately 6.3% to no change in 2015 as compared to 2014.
- Vegetables: By comparing the average purchase price of the major types of vegetables the Group used in 2014, which were Chinese kale, Chinese flowering cabbage and broccoli, the Group noted the average price changes ranged from an increase of approximately 9.2% to an increase of approximately 16.0% in 2014 as compared to 2013. By comparing the average purchase price of the major types of vegetables the Group used in 2015, which were Chinese kale, Chinese flowering cabbage and broccoli, the Group noted the average price changes ranged from a decrease of approximately 0.6% to an increase of approximately 8.2% in 2015 as compared to 2014.

*Note:* The average purchase price of each food ingredient specie used to calculate the ranges of average price change described above is based on sample purchase price of such food ingredient specie selected at quarterly intervals of March, June, September and December (as applicable) during the Track Record Period, except for high-value dried foods the sample purchase prices of which are based on all the months of purchase occurred due to their infrequency of purchase.

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The fluctuations in the prices of the Group's major food ingredients during the Track Record Period were mainly due to fluctuations in market prices. For price indices of major food ingredients in Cantonese restaurants in Hong Kong and Shenzhen from 2010 to 2014, please see the sub-paragraphs headed "Industrial Overview – Hong Kong's full-service Cantonese restaurant market – Major cost components" and "Industry Overview – Shenzhen full-service Cantonese restaurant market – Major cost components" respectively in this document. Most of the Group's food ingredients are sourced from local suppliers who, in turn, to the best of the knowledge of the Directors, procure the food ingredients from various overseas countries, as well as from local sources in the market. The prices of food ingredients in the market have experienced volatility and are affected by various factors, such as weather, harvest conditions of the food ingredients, government policies and market competition. Food prices have been rising in general in recent years, but such trend was depressed in 2015. The general appreciation of RMB during the Track Record Period had also caused the increase in prices of food ingredients originating from China, except that the depreciation of RMB during the second half of 2015 started to cause the decrease in prices of food ingredients originating from China.

During the years ended 31 December 2013, 2014 and 2015, the costs of materials consumed, which primarily consisted of food ingredients consumed, accounted for approximately 29.5%, 29.9% and 27.7% respectively of the Group's revenue. The overall decrease in cost of materials consumed as a percentage of revenue for the year ended 31 December 2015 was mainly attributable to the Shenzhen Restaurant, which the Directors consider to be mainly due to the improvement of control on food costs. The Directors believe the fluctuations in prices of the major food ingredients during the Track Record Period were reasonable and did not have a material adverse effect on the Group's business, financial condition and results of operations.

### **Purchase Cost Control**

The Group has not entered into any long-term contracts with its existing food suppliers. As such, none of the Group's restaurants is contractually bound to make purchases from a specific food supplier. This helps the Group in maintaining flexibility and agility in operations and pricing and thus enables the Group to adapt to changing market demand and economic circumstances. In addition, the Group will monitor the cost of food ingredients through comparing the price quotation from suppliers of the same food types, and review the monthly gross profit margin of the restaurants with the aim to react promptly to any material deviation from target profit margin.

### **Suppliers**

The Directors believe that supplier selection plays an important role in the management of restaurant business and is one of the competencies essential to maximising sourcing capabilities. The Group has developed a supplier selection system based on its senior management's experience in the restaurant industry. For the supply of food ingredients, the Group's procurement team, comprising executive chef and head chefs from each of the Group's restaurants and headed by the chief executive officer, is responsible for selecting and liaising with potential suppliers. Food ingredient suppliers are chosen carefully based on a set of

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selection criteria which includes type and quality of ingredients, cost, reputation, service, agility, delivery efficiencies and past performance, and must be approved by the Group's chief executive officer and the executive chef. As the Group places high emphasis on the quality of its raw materials, it sources raw materials from suppliers of established reputation. The Group maintains a list of approved food ingredient suppliers and their relevant records under which their details, including name and prices, are recorded and updated regularly. The Group maintained a total of over 80 approved suppliers as at the Latest Practicable Date. Orders for most food ingredients and seasonings are normally placed with the Group's approved suppliers. The Group also keeps a list of food ingredient potential suppliers for contingency purposes. With such a supplier selection system, the Directors believe that the Group can secure continual supply of food ingredients of consistent quality, identify the source of supply promptly, maintain flexibility in stock levels and enjoy bulk purchase discounts. For the supply of ancillary equipment and utensils, the Group also only makes purchases from approved suppliers.

The Group has not entered into any long-term contracts with its existing suppliers for food ingredients. This is consistent with industry practice as food ingredient suppliers generally do not enter into long-term supply contracts. However, the price quotation for certain food ingredients may be valid for a certain period of time, normally two weeks or one month, depending on the nature of food ingredient and the suppliers. Due to fluctuations in the pricing of food, it is difficult for the parties to fix an agreed price. Further, many food ingredients can be readily sourced from most suppliers and it would reduce flexibility in operations and pricing if the restaurant is contractually bound to make purchases from a specific food ingredient supplier for a specific term. This arrangement also helps the Group in maintaining flexibility and agility in operations and pricing and enables it to adapt to changing market demand and economic circumstances. The Group has established and maintained long-term relationships with a number of its suppliers. The Group's top five suppliers for the Track Record Period have been supplying raw materials to the Group for approximately 1 to 8 years. The Group's business with its suppliers has always been, and will aim to be, conducted on the basis of actual purchase orders placed by the Group from time to time. According to the best knowledge of the Directors, during the Track Record Period, none of the Group's key suppliers ceased or indicated that it would cease their supply to the Group, and the Group did not experience any material delay or interruption in securing the supply of food ingredients from its key suppliers. In view of this, the Directors believe that the Group will not experience any difficulty in securing the supply of food ingredients from its suppliers. In addition, in order to ensure the stable supply of food ingredients and minimise the risk of non-delivery, sub-standard products and supplier's default, the Group generally sources its major food ingredients from more than one supplier. For supply of wines, the Shenzhen Restaurant entered into an exclusive contract with a wine supplier pursuant to which the Shenzhen Restaurant can only purchase certain types of wines from such supplier for the period from 31 August 2015 to 31 August 2016. Nevertheless, there is no minimum purchase requirement imposed on the Shenzhen Restaurant under this exclusive contract.

For the years ended 31 December 2013, 2014 and 2015, the total purchases from the Group's five largest suppliers in aggregate accounted for approximately 50.0%, 40.1% and 37.3%, respectively, and its largest supplier, namely Ah Wong (which was an unincorporated sole proprietorship business owned by Ms. Chang Tam, a younger sister of Mr. Chan),



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accounted for approximately 25.7%, 23.7% and 14.1%, respectively, of its total purchases. The Directors confirm that the transactions with Ah Wong were conducted on normal commercial terms which are considered to be fair, reasonable and would not distort the Group’s track record results of operations or make its historical results not reflective of its future performance. In preparation for [REDACTED], the Group discontinued its purchases of goods from Ah Wong in August 2015. There are many frozen meat suppliers similar to Ah Wong in Hong Kong and Shenzhen and therefore, the Group will not experience any difficulty in sourcing the supply of frozen meat.

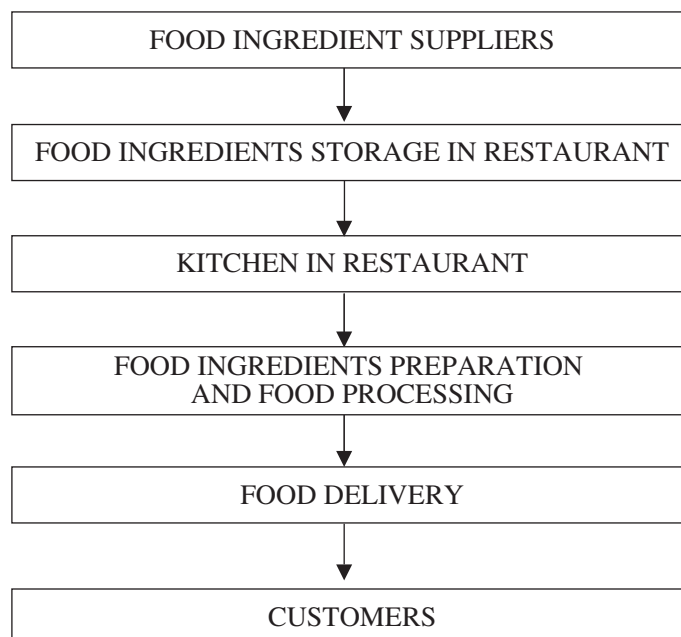
Save as the purchases from Ah Wong, none of the Directors, their respective associates or any Shareholder which to the knowledge of the Directors owns more than five per cent of the issued share capital of the Company had any interest in any of the Group’s five largest suppliers for the Track Record Period. For more details to the Group’s purchases from Ah Wong, please refer to the sub-section headed “Financial Information – Related party transactions” in this document.

### Credit and payment terms

The Group’s accounts department is responsible for processing all payments to suppliers. Payment would not be approved until both invoices from suppliers and delivery notes are signed and checked by restaurant managers and supervisors of the Group’s restaurants and verified by the Group’s accounts department. The accounts department will then arrange the settlement of invoices within the agreed credit periods. Payments to suppliers are generally made within 60 days after purchases. During the Track Record Period, most of the purchases from the Group’s suppliers for the restaurants in Hong Kong were denominated and settled in HK dollars, while purchases from those suppliers for the Shenzhen Restaurant were denominated and settled in Renminbi as those purchases were conducted in China.

### FOOD PREPARATION PROCESS

The diagram below illustrates the food preparation process of the Group:



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### **Placement of purchase orders**

The Group adopts the following order placement policies in relation to the following raw materials and supplies:

#### ***Food ingredients***

Each restaurant generally divides its food preparation division into three sections, in particular, main dishes section, dim sum section and barbecued food section, with a head chef assigned to each section where the head chef of main dishes section also acts as the leader of other head chefs. The relevant head chefs of different food preparation sections monitor the level of supplies regularly and decide the type and quantity of food ingredients to be purchased based on their industry experience. The head chef of each section then places orders directly with the Group's suppliers. The designated kitchen staff is required to record the weight of the incoming food ingredients and the time of delivery and inspect of quality of the food ingredients, upon delivery of the food ingredients to the restaurants' kitchen areas by suppliers. The accounts department checks delivery records against invoices from time to time. The designated kitchen staff checks the information on the delivery notes against the orders before the restaurants confirming receipt of the food ingredients with suppliers. Invoices are delivered to the accounts department. All purchases are supported by invoices provided by the suppliers.

#### ***High value dried foods***

In relation to high value dried foods such as abalones, shark fins and sea cucumbers, the Group adopts a more stringent order placement policy. Each restaurant head provides banquet bookings details to the head chef who is responsible for preparation of such high value dried foods for banquets. The head chef then confirms the amount of food ingredients needed and notifies the procurement team to place order with the Group's suppliers upon approval by the chief executive officer or his designated senior staff. The responsible staff of procurement team and the restaurant manager together inspect and weigh the food ingredients upon receipt. The procurement team acknowledges receipt after checking the details in the receipts (including descriptions and weight) against the orders and the invoices. The food ingredients are kept in a locked shelf in the restaurant's storage area with keys kept by the head chef of the main dishes section. Invoices are delivered to the accounts department.

#### ***Ancillary equipment and utensils***

In relation to ancillary equipment and utensils, the responsible staff of procurement team requiring procurement first checks with the Group's existing suppliers in respect of the price and the quality of goods. For any items that exceed HK\$10,000, at least two suppliers should be selected for comparison based on price and quality of goods, and orders should only be made after discussion with the Group's senior management. The responsible staff of procurement team contacts the selected suppliers to place orders. For inexpensive items, orders are directly made by section head chefs to suppliers. Goods are delivered by the suppliers to the relevant sections of the restaurants. The relevant section head chef signs and affixes the company chop on the goods delivery note to acknowledge receipt of goods. Invoices are sent to the accounts department by suppliers.

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Apart from the above, on occasional demand for purchase of expensive or large quantity of stock items, the staff who raises the request is required to fill in a purchase requisition form with approval by the restaurant head who would ensure that the request is justified and the staff has to acknowledge receipt of the stock items on the form.

### **Storage and preservation**

The section head chefs of each restaurant are responsible for ensuring that food ingredients are stored properly. Non-perishable food ingredients and other ancillary equipment and utensils are kept in the restaurant's storage areas. High value dried foods, such as shark fins, abalones and sea cucumbers, are kept in a locked shelf in the restaurant's storage area of the kitchen. Only the head chef of main dishes section responsible for high value dried foods has the key to the locked shelf. Wines are kept in wine cabinets. Live fish and seafood are kept in aquariums. All inventories of the restaurants in Hong Kong have been insured against theft and fire with insurance coverage ranging from HK\$300,000 to HK\$500,000 for respective restaurants, except for the Sheung Wan Restaurant and the Beijing House Restaurant where the insurance coverage for inventories is combined with that for other properties of the restaurant premises and amounted to HK\$6.0 million in total. Inventories of the Shenzhen Restaurant have been insured against theft or fire with insurance coverage of RMB200,000. The head chefs of their responsible section would check the state of all fresh and perishable goods to avoid using stale or expired food ingredients.

Each restaurant of the Group has in place standardised preservation methods and recommended storage periods for different categories of foods, including unserved portions which will be utilised in the subsequent days. The Directors believe such practice promotes food quality, ensures food safety and prolongs the lifespan of food ingredients.

During the Track Record Period and up to the end of July 2015, the Group procured its warehouse and storage services from Richfield Develop, a wholly-owned subsidiary of Great Virtue before the Reorganisation, to stock selected raw materials sourced by the procurement team. The selected items were delivered and stored before distribution to individual Hong Kong restaurants of the Group. Since August 2015, in order to improve the logistics of delivery of those selected raw materials from suppliers, the Group requested those suppliers to deliver such raw materials directly to the respective restaurants.

### **Inventory control**

The Group considers that the level of inventory will affect its overall profitability. The Group has implemented inventory control measures based on food types, consumption levels and prices.

The Group keeps its storage level of fresh and perishable food ingredients by not more than two days to reduce wastage, ensure freshness and quality of food and avoid excessive inventory level. For non-perishable food ingredients and other ancillary equipment and utensils, the Group maintains an adequate level based on operational needs. For high value inventories mainly purchased for consumption at banquets or large-scale gatherings, such as wine, shark fins, abalones and sea cucumbers, purchase orders would be approved by the chief executive officer based on the level of advance booking.

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The central procurement policy also helps to control inventory levels. Orders for certain selected raw materials, mainly non-perishable food ingredients such as chilled meats and expensive dried seafood required by all the Group's restaurants in Hong Kong are centralised before placing with the approved suppliers. Bulk purchases would allow the Group to obtain bulk purchase discounts, which lower the Group's cost of production and achieve economies of scale. Centralised procurement also aims to ensure that purchase prices remain at competitive level and allow the Group to secure continual supply of quality and fresh food ingredients and maintain flexibility in stock levels. However, in order to ensure the freshness of perishable food ingredients such as vegetables (which have a much shorter shelf life of approximately two days), the orders placed with suppliers are normally one day before delivery. Hence, it is not practical for the Group to arrange for centralised bulk purchase of perishable food ingredients for all restaurants in Hong Kong. Instead, each restaurant directly places its order with the suppliers based on its own operational needs. Nevertheless, as the suppliers have been basically pre-approved by the senior management of the Group which has negotiated with the suppliers for arrangement of regular price quotations on Group basis, the suppliers would recognise that the orders placed directly by different Star of Canton Restaurants belonging to the same restaurant group. The Directors believe that the Group could therefore also enjoy bulk purchase discounts to the extent that their price quotations shall have taken into account the aggregate purchasing power of all the restaurants of the Group in Hong Kong.

Prices of food ingredients may fluctuate and bring an adverse impact on the costs of production. In order to minimise such impact, regular advance quotations from suppliers are obtained to allow the Group to respond promptly to market changes.

### **Food preparation**

In order to ensure all dishes are freshly prepared, each of the Group's restaurants conducts its food preparation functions in its own kitchen. Each restaurant has a leader head chef, being head chef of the main dishes section, who is responsible for the overall operation of the kitchen of that restaurant. Each restaurant has a food preparation division which focuses on kitchen operations. The food preparation division is led by the head chef of the main dishes section and is divided into different sections based on food types, including main dishes section, dim sum section and barbecued food section. Each section is led by its head chef. The section head chefs coordinate the work of small teams of chefs and assistants of each section. The chefs and assistants of each section are responsible for different food preparation processes, including chopping, portioning, pan-frying, steaming and sauce making. In order to ensure the consistence of food quality level of all restaurants in Hong Kong, the Group has an executive chef who is responsible for overall management of the food preparation functions of all restaurants in Hong Kong.

With respect to food preparation for banquets and dining services for large-scale events, the head chef of main dishes section would be the key person for the overall planning of food preparation and allocation of kitchen works. Based on party size and the number and complexity of menu items, the head chef would allocate different work tasks to chefs and assistants, such as scheduling the preparation and meal service time of each menu items, and closely monitor the works of the kitchen staff to ensure timely production.

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### RESTAURANT MANAGEMENT AND FUTURE PLANS

#### Management

The Group's management structure is divided into two levels: corporate management level and restaurant level. Corporate management level comprises the Group's senior management team, which is responsible for the development the long-term business strategies of the Group, evaluation of the implementation of business plans, oversight of quality control, staff management and new restaurant development. Restaurant level comprises individual management teams of each of the Group's restaurants, which are responsible for implementing the decisions of the senior management team, reporting operations to the senior management team on a regular basis and reflecting the needs and trends of customers to senior management team. The individual management team of each restaurant is headed by the restaurant head who is familiar with the operations of the restaurant where he or she stations and is experienced in the food and beverage industry. The restaurant head is responsible for overseeing the operations of the two main divisions of each restaurant: the food preparation division and the sales and floor division. The food preparation division focuses on kitchen operations and is divided into different sections based on food types, including main dishes section, dim sum section and barbecued food section. Each section is led by a section head chef while the head chef of the main dishes section also acts as the leader of other section head chefs. The section head chefs coordinate the work within the small teams of chefs and assistants of each section. The sales and floor division is mainly responsible for overseeing the operations relating to seafood, alcohol and beverages, sales and marketing and floor staff. In order to ensure the consistent level of services quality is upheld in the Group's Star of Canton Restaurants in Hong Kong, the Group has two district managers, one of them is responsible for overall monitoring of the operations of the Olympian Restaurant and The One Restaurant, and the other is responsible for overall monitoring of the operations of the CWB Restaurant and the Sheung Wan Restaurant; while the Beijing House Restaurant, being a Jingchuanhu cuisine restaurant under the new brand of Beijing House, is directly monitored by the chief executive officer. The two district managers also act as the communication link between restaurant managers and the senior management team.

#### Staff hiring, training and monitoring

The Directors believe that success in hiring, training and monitoring a large number of experienced employees is critical to its ability to provide reliable and professional services to its customers.

Each restaurant head is responsible for the recruitment of its restaurant staff. The Group seeks to hire employees with relevant experience in the restaurant industry. The Group generally offers internal promotion opportunities and competitive compensation and benefits. Various fringe benefits are also provided to its employees, including free meals, discretionary bonus to promote work incentives. Shenzhen Restaurant also provides staff quarter for restaurant staff. The Group provides on-the-job training to staff in relation to food ingredients preparation and preservation, flow of food production, hygiene conditions of the kitchen and

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quality control in different aspects of the operations of restaurants based on their job duties to improve their practical business skills and practices. It also distributes guidance materials and manuals on food handling, food and personal hygiene, food safety and quality control to ensure that its operations are run in a safe and proper manner. Each restaurant holds daily briefing sessions with all front-line service staff on the daily operations of the restaurant. During briefing sessions, the restaurant heads also review staff performance and reflect customers' feedbacks. Such daily performance reviews aim to assist the front-line service staff in maintaining and improving service levels.

The Directors believe that the stability of a reliable and skilled workforce is critical to the success of its business and understand that the effectiveness and productivity of its staff are highly driven by tenure. It offers competitive remuneration packages to its staff with discretionary bonuses.

### RESTAURANT NETWORK EXPANSION

#### Site selection criteria

The Group's senior management team is responsible for expanding the Group's restaurant network through well-planned and stringent site selection criteria, which help the Group to capture its target customers with different preferences, spending patterns and needs. Site selection is a critical consideration in the Group's restaurant network expansion strategy. A desired site should be visible, accessible, convenient and attractive to the target customers. The Group would consider comprehensive data and relevant location requirements in selecting a desired site. The senior management team maintains a restaurant opening manual setting out the Group's major site selection criteria in determining a desired location before opening a new restaurant, which include:

- the flow and level of target customer traffic (e.g. the existence of favourable demographics of the area and accessibility to target customers);
- the flow and level of pedestrian traffic (e.g. proximity to present and planned transportation systems, private and public housing estates, shopping malls, supermarkets, education institutions and other commercial, business and residential establishments);
- initial capital outlay including cost of rental and other operating costs and expenses;
- size, safety and any special appeal of the site;
- projection on time and size of investment return;
- the level of actual and potential competition;
- the presence of other food and beverage operators to help the area to achieve a food-related reputation;



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- local landmarks and planned developments; and
- the existence of favourable factors tied with the Group's restaurant network expansion strategy (e.g. large floor areas are generally preferred for restaurants providing banquets).

All of the Group's restaurants are strategically opened in prime locations with heavy target customer traffic. For site information of the Group's restaurants, please refer to the paragraph headed "Business, restaurants and customers" in this section.

### **Restaurant opening**

After a potential site is identified, the Group's senior management would commence comprehensive due diligence procedures, including seeking opinions from the experienced restaurant head and head chefs, consulting internal and engaging external professional on compliance with legal and regulatory requirements, engaging external legal advisers to advise on leasing matters, studying the feasibility and effect of installing the desired equipment and renovations and assessing the total capital investment required and time and size of investment return.

Upon satisfactory results of due diligence, negotiations with the relevant landlord in securing the lease would commence. The Group would also appoint an independent professional license consultant to provide assistance in handling issues in respect of the application of the relevant restaurant opening license when necessary. A professional interior design firm would be engaged to renovate the site based on the types of services offered, target customer groups and associated brand features based on the request of the Group's senior management. For each new restaurant, the Group seeks to maximise efficiency in layout, functionality and usable space while taking into account safety requirements and the aesthetic aspects. The management team of the restaurant would be responsible for liaising with suppliers on sourcing restaurant kitchen equipment and utensils. New staff would be recruited and staff from existing restaurants of the Group would be seconded to the new restaurant to provide assistance in the initial stage, if available. Based on past experience and current estimation, the Directors considered that it generally takes four to five months for a restaurant to launch upon signing of the lease. The costs of opening a restaurant depend upon, among other things, rental costs, type of renovations and equipment required.

Newly opened restaurants are expected to purchase food ingredients from existing suppliers of the Group, except as otherwise approved by the chief executive officer and executive chef of the Group.

### **Closure of the I-Square Restaurant**

The tenancy of the I-Square Restaurant expired on 24 November 2015. The Group did not renew the tenancy of I-Square Restaurant upon its expiry. The main reason for the closure is that the Directors had been considering opening up Beijing House Restaurant at a shop adjacent to that of a Star of Canton Restaurant for the sake of achieving economies of scale of operation

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by sharing the same kitchen area, however the Group was constrained by the size of its existing restaurants. Before the expiry of the I-Square Restaurant, the Group identified a Sheung Wan site and the Directors consider that the Sheung Wan site is an ideal location to open up both the Sheung Wan Restaurant and Beijing House Restaurant. The area of the Sheung Wan site is almost twice that of the I-Square Restaurant and it targets to capture mid-to-high end spending customers and corporate customers in the Central or Sheung Wan areas. In addition, as the competition for leases in Tsim Sha Tsui among retailers is fierce, the Directors expected that such situation would also lead to considerable increase in rental cost for restaurant premises in Tsim Sha Tsui. Hence, the Group had decided not to renew the I-Square Restaurant tenancy.

Furthermore, in order to retain experienced staff, a portion of the restaurant staff of I-Square Restaurant, especially certain senior kitchen staff, was transferred to the Sheung Wan Restaurant and Beijing House Restaurant upon closure of the I-Square Restaurant. For the remaining staff of I-Square Restaurant, no additional provision is considered necessary by the reporting accountants in respect of the severance payments due to the fact that such amount of payments is expected to be insignificant after netting off with the contribution made by the I-Square Restaurant in the past under the Mandatory Provident Fund scheme.

Nevertheless, except for the provision of HK\$645,000 for reinstatement cost upon the closure of premises occupied by the I-Square Restaurant, which had been made prior to the Track Record Period, the Group provided an additional amount of reinstatement cost of approximately HK\$252,000 for the year ended 31 December 2015, based on the latest available quotations from independent contractors and estimation by the Directors.

### **New restaurants**

#### ***Hong Kong – Sheung Wan Restaurant and Beijing House Restaurant***

In 2015, encouraged by the success of the restaurants under Star of Canton Restaurants in Hong Kong and China and the established reputation of the Group in providing Cantonese cuisine which is one of the major types of Chinese cuisines, the Group decided to take steps to further develop its business and diversify its restaurant portfolio by adopting a new branding strategy. The major step included the opening of the Group's first non-Cantonese cuisine restaurant in Sheung Wan under the brand name of Beijing House at the end of October 2015 to provide Jingchuanhu cuisines, which became the second brand established by the Group, targeting customers looking for mid-to-high end dining experience of Jingchuanhu cuisines. The Group also opened a restaurant under the brand name of Star of Canton, namely, the Sheung Wan Restaurant at the end of October 2015 to provide Cantonese cuisine, which is located at shops adjacent to the Beijing House Restaurant.

The Group incurred a total of approximately HK\$19.7 million for the renovation and installation of new equipment and facilities for the Sheung Wan Restaurant and the Beijing House Restaurant. The capital expenditure was funded by internal resources and a bank loan of HK\$15.0 million of the Group. Although the contract payment terms of the main contract for the renovation works require the Group to fully settle the contract price, which was

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finalised at approximately HK\$9.5 million, within 90 days of the completion of the renovation works in October 2015, the Group obtained a written consent from the main contractor allowing the Group to progressively settle the full amount by the end of 2016. The Sheung Wan Restaurant and Beijing House Restaurant have obtained the provisional general restaurant licence and liquor licence. For the water pollution control licence, according to the relevant EPD's guide to application of a license granted under the WPCO, the Sheung Wan Restaurant and Beijing House Restaurant will only apply for the water pollution control license after a few months' operation of the restaurants as it is necessary to submit the three most recent water bills or estimated water consumption information to the EPD for assessment of the discharge of effluents by the relevant restaurants.

### *Shenzhen, China – two Cantonese restaurants*

The Group also plans to open two Cantonese restaurants in China, namely, the Shenzhen Uniwalk Restaurant and the Shenzhen One Avenue Restaurant. Shenzhen Uniwalk Restaurant will be located in a landmark shopping mall which is undergoing construction and situated at Qianhai, a future commercial district of Shenzhen City, while Shenzhen One Avenue Restaurant will be located in a prime shopping and commercial complex which is also undergoing construction and situated at the CBD of Futian District of Shenzhen City. The Group has signed tenancy agreements in respect of leasing of the aforesaid premises. Depending of the formal handover of the restaurant premises by the landlords upon completion of construction of the shopping and commercial buildings and the renovation of the restaurants thereafter, the Shenzhen Uniwalk Restaurant and the Shenzhen One Avenue Restaurant are currently expected to commence business in the second half of 2017.

In line with the Group's business philosophy and brand management strategies, the two new restaurants in Shenzhen, the PRC will also be positioned as mid-to-high end Chinese restaurants, targeting customers in the middle-to-high income groups who require such dining services for business, social and family gatherings. Based on the terms of the tenancy agreements, it is currently expected that the total saleable areas of the Shenzhen Uniwalk Restaurant and the Shenzhen One Avenue Restaurant will be approximately 2,803 sq.m. and 1,721 sq.m. respectively. The Group currently plans to invest approximately HK\$[REDACTED] and HK\$[REDACTED] for the Shenzhen Uniwalk Restaurant and the Shenzhen One Avenue Restaurant respectively as capital expenditure. The Group plans to satisfy such capital expenditure by the proceeds from the [REDACTED] and the internal working capital of the Group. For details of the use of proceeds of the Group, please refer to the paragraph headed "Future Plans and Use of Proceeds – Business strategies" in this document. As at the Latest Practicable Date, the Group incurred a total of approximately HK\$[REDACTED] as deposit payments for the two new restaurants premises.

Although the Shenzhen Restaurant recorded an operation loss for the period from the commencement of its operation in October 2013 to 31 December 2013 and for the year ended 31 December 2014, such loss situations were mainly due to the facts that: (i) the Shenzhen Restaurant was under its initial stage of operation in the last quarter of 2013, during which the restaurant was yet to generate a normal revenue adequate to cover certain material fixed costs

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such as rental expense and staff costs, before its operation was gradually put on track in 2014; and (ii) the positive operating profit before interest, taxation, depreciation and allowance ("EBITDA") of approximately HK\$0.3 million for the year ended 31 December 2014 was offset by the depreciation charge of the year. In this regard, the Directors consider that depreciation charge shall be regarded as a factor affecting the assessment of the investment payback period, while EBITDA shall be considered as the more relevant financial indicator to assess the profitability performance of a restaurant's operation as it closely reflects the operating cash flows before changes in working capital. Therefore, the Directors consider the record of the positive EBITDA of approximately HK\$11.8 million generated by the Shenzhen Restaurant during the year ended 31 December 2015 can substantiate the ability of a new restaurant in Shenzhen to achieve investment payback in a few years, and hence provides a solid commercial rationale for the Group to further expand its restaurant network in Shenzhen. In addition, according to the Ipsos Report, the growth potential of Cantonese restaurant market in Shenzhen is better than that in Hong Kong, in terms of forecast CAGR of revenue generated from Cantonese restaurant industry from 2015 to 2019 in these two markets. In view of the above, the Directors believe that Shenzhen is a market with huge growth potential for the long-term development of the Group's restaurant business.

### *Operating breakeven period and investment payback period of new restaurants*

According to the past experience of the Group and future expectation, the Directors consider that it would normally take approximately two months for a new restaurant in Hong Kong and approximately three months for a new restaurant in the PRC to achieve breakeven, in terms of EBITDA. Based on past experience and current estimations of the Group, the Directors also expect it would normally take approximately 24 months for a new restaurant in Hong Kong and approximately 36 months for a new restaurant in the PRC to reach investment payback points, which the Directors consider when the accumulated net profit from a restaurant exceeds the costs of opening and operating the restaurant, including incurred capital expenditures and ongoing operating expenses.

The following sets out the approximate historical operating breakeven period and investment payback period of the Group's restaurants which were opened in recent years, based on the unaudited management accounts of the relevant operating subsidiaries:

	<b>Historical operating breakeven period</b> (Note 1)	<b>Historical investment payback period</b> (Note 2)
I-Square Restaurant (Note 3)	4 months	24 months
The One Restaurant	2 months	24 months
Shenzhen Restaurant	3 months	N/A (Note 4)

*Notes:*

- Operating breakeven period is regarded as the period needed for a restaurant to record a positive monthly EBITDA (which closely reflects the operating cash flows before changes in working capital) for the first time following the month of commencement of business of the restaurant.

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2. Investment payback period is regarded as the period needed for the investment cost in a restaurant's fixed assets to be fully covered by its accumulated EBITDA since the commencement of business of the restaurant.
3. The I-Square Restaurant ceased operations in November 2015.
4. Shenzhen Restaurant commenced operation since October 2013 and is yet to reach investment payback point.

As the estimated total saleable area of the Sheung Wan Restaurant and Beijing House Restaurant is about twice of that of the I-Square Restaurant, the Directors expect that the loss of contribution of revenue and operating profit to the Group from the I-Square Restaurant upon its closure in November 2015 will soon be compensated by that of the Sheung Wan Restaurant and Beijing House Restaurant which was opened at the end of October 2015.

Moreover, the Directors consider that the capital expenditure requirement for the Group's expansion plan of opening new restaurants in Hong Kong and the PRC, which was/will be financed by internal resources generated from operations and bank borrowings of the Group, as well as the net proceeds from the [REDACTED], and the operation of the Sheung Wan Restaurant and Beijing House Restaurant in place of the I-Square Restaurant, would not have material adverse impact on the liquidity position or cash flow position of the Group.

As at the Latest Practicable Date, the Group had not identified any acquisition target for its expansion plan.

## FOOD SAFETY AND QUALITY CONTROL

The Group strives to provide high quality Chinese cuisine and services to its customers. The Group has a quality control system in place covering food production process, food and services provided to the customers and dining environments of all its restaurants, with a particular focus on food hygiene and safety and sanitation and cleanliness standards of restaurant premises. Food safety policies and procedures prepared in accordance with the standards required by the relevant government authorities have been established. The restaurant head is responsible for reviewing the operations and performance of the restaurant to ensure that they are in compliance with the guidelines and policies.

Each restaurant head is responsible for checking and monitoring the quality of food and services and the dining environments of the relevant restaurant. The restaurant head directly reports to the senior management of the Group and would make suggestions on remedial actions if the Group's restaurant for which he is responsible has underperformed.

Except for the newly opened Sheung Wan Restaurant, each of the Group's restaurants under Star of Canton Restaurants in Hong Kong was accredited as a Qualified Restaurant (優質餐館) by the Hong Kong Tourism Board in 2015, recognising the restaurants' commitment to offering qualified services in the restaurant industry. The validity period of the accreditation is from 1 April 2014 to 31 March 2015. The Group plans to apply for renewal of the accreditation for all of its restaurants in Hong Kong in subsequent years in due course.

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### **Quality control on food production**

The Group strive to maintain a strict quality control system and adopt high hygiene standards throughout the entire food production process, starting from the procurement of the food ingredients to food delivery to customers covering the following aspects:

#### ***Control on source of food ingredients and seasonings***

The Group maintains a food control team which is responsible for monitoring the source of food ingredients and seasonings. The chief executive officer and the executive chef shall select food ingredients carefully, often based on origin, nutritional value, freshness, chemical content and consumption safety. The freshness and quality of the raw materials and food ingredients provided by its suppliers are evaluated on a regular basis and the Group would cease to source from those suppliers who fail to provide quality food ingredients. Orders for most food ingredients and seasonings are normally placed with the Group's approved suppliers.

Furthermore, the head chef of main dishes section and senior kitchen staff (i.e. head chopper) shall purchase appropriate level of fresh and perishable food ingredients for the Group's restaurants to reduce food wastage, ensure their freshness and quality and avoid excessive inventory levels.

#### ***Response to "Gutter oil" Incident***

In early September 2014, the widely reported "gutter oil" incident affected food businesses in Taiwan, Hong Kong and Macau. As soon as the Group became aware of the incident, it has informed all restaurant heads and managers of all its restaurants to be aware of any usage of contaminated lard products that were investigated by the government authorities.

In order to increase customers' comfort on the foods provided by the Group's restaurants, the Group's restaurants in Hong Kong participated in the Hong Kong Cooking Oil Registration Scheme (the "**Scheme**") launched by Hong Kong Quality Assurance Agency of the Hong Kong government, as Scheme Companions. According to the Scheme, participating restaurants, as Scheme Companions, have to observe various conditions in their operations, including but not limited to, keeping of adequate records of cooking oils purchased and used in order to ensure their sources and place of origins can be traced, assuring the cooking oils used are purchased from reliable sources, allowing the collection of waste cooking oil by eligible collectors, as well as allowing for inspection of relevant records upon demand by the authority.

#### ***Inspection of food ingredients and seasonings upon delivery***

Different inspection procedures are adopted for different types of raw materials sourced by the Group. For the delivery of the food ingredients, the designated kitchen staff (i.e. second chopper) is required to record the weight of the incoming food ingredients and the time of delivery and inspect of quality of the food ingredients, upon delivery of the food ingredients to the restaurants' kitchen areas by suppliers. The designated kitchen staff checks the



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information on the delivery notes against the orders before confirming receipt of the food ingredients. For high value dried foods, the head chef of main dishes section or the head chopper will inspect and weigh the food ingredients together with the restaurant head upon receipt. For ancillary equipment and utensils, the relevant section head chef signs and affixes the company chop on the goods delivery note to acknowledge receipt of goods. All these procedures are carried out before invoices are sent to the accounts department by the suppliers.

### *Use of cooking methods and techniques*

The Group endeavours to provide quality food that brings out the flavour from quality food ingredients and seasonings. In addition to using fresh and quality ingredients, cooking techniques are just as important to the Group. Each technique for each dish is chosen carefully. In order to highlight qualities of food ingredients on top of flavour, aroma, colour and texture, the Group also uses cooking methods and recipes which the Directors believe would preserve the nutritional value of food ingredients and allow dishes to be served at desired time and temperature.

In addition, the section head chefs would provide guidance to other chefs and assistants on preparing foods in accordance with established standards, including conforming to the specifications reflected in photographs of menu items, maintaining the desirable characteristics of a given standard, preparing consistent and appropriate serving sizes and developing cooking methods to reduce food waste.

### *Storage of food ingredients*

All food ingredients once delivered to the restaurants are stored in respective designated areas in the kitchen and refrigerating facilities as some of them are perishable in nature. To avoid contamination, all food ingredients are required to be kept in areas with appropriate temperature and humidity, depending on their nature.

### *Hygiene and safety*

To ensure the hygiene condition of the food ingredients, the restaurant chefs check the fresh food ingredients on a daily basis and other food ingredients and seasonings, in particular, the chilled food stored in the refrigerating facilities on a regular basis.

A set of procedures have been put in place to ensure the observance of personal hygiene by food handlers. For example, all the restaurants shall ensure food handlers are not suffering from discharging wounds or sores on any exposed parts of their bodies; and that bandages or dressings should preferably not be in flesh-colour so that they can be easily detected on falling off.

All kitchen areas and equipment and utensils used are required to be disinfected and cleaned up at the end of each business day. All kitchen staff are required to keep the kitchen floors free of obstacles that may result in falls or injuries and dry to avoid the growth of bacteria. Food waste and expired dishes are required to be properly discarded.

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In addition, the Group has developed a set of procedures on inspection of kitchen areas and equipment. Regular inspection of the kitchen areas is carried out to check that different parts of the kitchen areas, including stoves, basin, utensils, floors, ceiling and ventilating system, are up to the hygiene standard. The restaurant head is responsible for ensuring compliance of these procedures and making recommendations to the Group's senior management in this aspect.

### *Employee Safety*

The Group is committed to providing a safe working environment for its employees. The Group has developed safety procedures and guidelines which set out work safety policies and promote safety on work sites. In addition, the Group's kitchen operation manual provides clear guidance on various occupational and restaurant safety matters which restaurant-level staff is required to follow. The Directors believe these measures help reduce the number and seriousness of work-related injuries of its staff and are adequate and effective to prevent serious work injuries.

When an accident occurs in the Group's restaurant, the restaurant head will report the accident to the administration department as soon as possible. The Directors confirm that there was no material accident at its restaurants during the Track Record Period. Based on the Group's internal record, the Directors confirm that the Group recorded no work-related injuries of its employees during the Track Record Period where compensation paid for each is above HK\$0.13 million, and the total compensation paid for all of these worked-related injuries was approximately HK\$0.4 million in aggregate. Please refer to the sub-paragraph "Business – Internal control measures to prevent the recurrence of non-compliance incidents – Employees-related non-compliance matter" for compliance policy in relation to work-related injuries and accidents.

All refrigerating facilities of the Group's restaurants are required to be cleaned on a regular basis for ensuring their cleanliness and high hygiene standard as required by the Group. Further, all refrigerating facilities are maintained and checked on a regular basis for ensuring that they operate effectively and efficiently.

### *Training to staff*

The Group provides on-the-job training to staff in relation to food ingredients preparation and preservation, flow of food production, hygiene conditions of the kitchen and quality control in different aspects of the operations of restaurants based on their job duties to improve their practical skills and practices. The Group also distributes guidance materials and manuals on food handling, food and personal hygiene, food safety and quality control to ensure that its operations are run in a safe and proper manner.

Based on the above aspects which are related to assurance of food safety, as at the Latest Practicable Date, there are a total number of 38 staff of different levels involved in implementing various quality control measures on food production, including, among others, checking the quality upon purchase of raw materials, receipt of food ingredients, cooking and serving of foods.

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### **Quality control on customer service**

The Group provides training and guidelines to its staff on service-related areas such as food handling and personal hygiene to enhance the quality of services provided to the customers. The Group endeavours to train all front-line service staff to be courteous, competent and responsive and to provide cordial hospitality to customers. The restaurant staff are required to be professionally uniformed during all working hours. The Group's restaurant heads hold daily briefing sessions with all front-line service staff on the daily operations of restaurants. In these briefing sessions, the restaurant heads or restaurant managers would review staff performance and reflect the customers' feedbacks. Such daily performance reviews assist the front-line service staff in maintaining and improving service levels. The Group strives to promote customer satisfaction through responding to their comments and feedbacks. All front-line service staff are required to treat every request, enquiry or complaint by customers promptly and seriously. In case of any customer complaint in relation to food or quality of services, the restaurant heads would take initiative to investigate and resolve the matter and attend to the customers promptly. The Directors believe that maintaining good customer satisfaction can assist the Group in strengthening its price-value proposition and building its brands and reputation.

### **Quality control on dining environments and kitchen areas**

The Group is committed to providing comfortable dining environments and maintaining the high hygiene standard of the kitchen areas. The Group has engaged a professional carpet cleaning company to perform carpet regular cleaning for its restaurants while an aquarium management company is engaged to perform regular maintenance and cleaning work for the aquariums of its restaurants. Further, the restaurant manager will monitor the dining environment and provide immediate feedback to the floor staff.

## **COMPLAINTS**

Whenever a complaint from a customer is received in a restaurant, the relevant restaurant head or restaurant manager will try to resolve the matter to the customer's satisfaction. If the customer is satisfied, the restaurant head will fill in a customer complaint record form with details of the complaint and send the form to the Group's administrative department for record. If the restaurant head is unable to resolve the matter to the customer's satisfaction, the complaint case will be referred to the administration department for further handling. Whenever the Group receives a customer complaint from the compliant hotline of the Group, the administration department is responsible for follow up actions.

To the best knowledge of the Directors, the Group is not aware of any incident of customer complaint claiming material compensation that could have a material adverse effect on its business, results of operations or financial condition during the Track Record Period and up to the Latest Practicable Date. As soon as any restaurant of the Group receives a customer complaint referred from the Consumer Council or Hong Kong Tourism Board, the administration department will handle the customer complaint. The Directors confirmed that,

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to the best of their knowledge, during the Track Record Period and up to the Latest Practicable Date, there was one incident in which one of the Group's restaurants was subject to a deduction of 5 demerit points by the FEHD under the demerit points system due to non-compliance with the provision relating to food not of the substance demanded by the customer (in particular, a piece of dim sum provided by the relevant restaurant contained a small piece of plaster) of the Public Health and Municipal Services Ordinance, and the relevant restaurant pled guilty under such ordinance and was fined HK\$3,405. Nevertheless, the Directors confirmed that the customer who lodged the complaint did not make any monetary claims against the Group. Save for the aforementioned complaint, which was followed up by the FEHD, the Group's restaurants have not been subject to any other investigations regarding the hygiene of its food by any government authorities or relevant consumer protection organisations during the Track Record Period.

During the Track Record Period and as at the Latest Practicable Date, none of the Group's restaurants had been subject to suspension from operations because of similar incidents and the Directors are of the view that the above incident would not have any material adverse effect on its business and financial position. The control measures implemented to prevent reoccurrence of similar incidents have been set out in the sub-paragraphs headed "Food safety and quality control – Quality control on food production – Use of cooking methods and techniques, and Hygiene and safety" in this section. In particular, all the restaurants shall ensure food handlers are not suffering from discharging wound or sores on any exposed parts of their bodies; and that bandages or dressings should preferably not be in flesh-colour so that they can be easily detected on falling off. Please also see the section headed "Risk Factors – Risk Relating to the Group's Business – Failure to deal with customer complaints for adverse publicity involving the Group's products or services could materially and adversely impact the Group's business and operation results." and "Risk Factors – Risk Relating to the Group's Business – Any negative publicity or complaints on food contamination could adversely impact the Group's reputation, business and operation results and even subject the Group to significant liability claim."

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### AWARDS AND CERTIFICATIONS

The following table sets out the various awards and certifications obtained by the Group during the Track Record Period and up to the Latest Practicable Date:

Year of Grant	Restaurant Awarded	Awards/ Certification	Awarding Body	Validity Period
2008	Star of Canton Restaurant	Gold Award for Chicken Dishes Group of The Sixth Open Fire Cooking Competition (第六屆明火食神爭霸戰雞組金獎)	Metro Finance channel of Metro Broadcast Corporation Limited	Not applicable
2008	Star of Canton Restaurant	The Most Creative Award for Chicken Dishes Group of The Sixth Open Fire Cooking Competition (第六屆明火食神爭霸戰雞組最具創意獎)	Metro Finance channel of Metro Broadcast Corporation Limited	Not applicable
2015	Star of Canton Restaurants	Qualified Tourism Services Scheme – accredited restaurants	Hong Kong Tourism Board	1 April 2014 – 31 March 2015

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### LICENSES AND APPROVALS

#### Regulatory regime of Hong Kong

In order to operate the Group's restaurants in Hong Kong and to sell liquor at its restaurant premises, the following three types of licenses are required to be obtained and maintained:

- (a) a general restaurant license granted by the DFEH of the FEHD;
- (b) a water pollution control license granted by the DEP of the EPD; and
- (c) a liquor license granted by the LLB.

However, in some cases the DEP of the EPD may grant an exemption of the requirement to obtain a water pollution control license for a restaurant if it considers the premises in which the relevant restaurant is situated meets the water pollutions control requirements of the EPD. In this regard, the Olympian Restaurant is exempted from the requirement to obtain a water pollution control license as permitted by the DEP of the EPD.

Please refer to the section headed "Laws and Regulations" in this document for details of the relevant regulatory requirements regarding the above licenses.

#### Regulatory regime of China

In accordance with the laws and regulations of China, the Group is required to maintain various approvals, licenses and permits in order to operate its restaurant in China. Shenzhen Restaurant is required to obtain, among others, the relevant pollutant discharge license and dining service license. These licenses and registrations are achieved upon satisfactory compliance with, amongst others, the applicable food safety, hygiene and environmental protection laws and regulations. All of these licenses are subject to periodic or aperiodic examinations or verifications by relevant authorities and are valid only for a fixed period of time subject to renewal and accreditation.

The PRC Legal Adviser confirmed that as at the Latest Practicable Date, the Group had obtained all the licenses and permits required for operation of its Shenzhen Restaurant and all of these licenses or permits were valid, and that the Group was not in contravention of the applicable PRC laws and regulations in any material respect.



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### Licenses of the Group

#### Restaurants in Hong Kong

The table below sets out details of the general restaurant licenses, liquor licenses and water pollution control licenses, in respect of each of the Group’s restaurants operating in Hong Kong:

Name of restaurant	Operating capacity	Address of the restaurant as shown in the general restaurant license	General restaurant license			Liquor license (Note 2)			Water pollution control license (Note 3)		
			Holder	License number	Validity period of the current license	Holder	License number	Validity period of the current license	Holder	License number	Validity period of the current license
CWB Restaurant	Solarday Investment	21/F, Lee Theatre Plaza, 99 Percival Street, Causeway Bay, Wanchai, Hong Kong	Solarday Investment	2212126617	8 January 2016 – 7 January 2017	Chan Chun Kit	5212002125	20 January 2016 – 19 January 2018	Solarday Investment	WT00022762-2015	9 November 2015 – 30 November 2020
Olympian Restaurant	Orient Century	Shop UG01, UG/F, Olympian City Two, 18’ Hoi Ting Road, West Kowloon, Kowloon	Orient Century	2262262950	6 June 2015 – 5 June 2016	Pang Shu Wan	5262001710	11 June 2015 – 10 June 2016	N/A	N/A	N/A
The One Restaurant	Great Virtue (HK)	17/F, The ONE, 100 Nathan Road, Tsim Sha Tsui, Kowloon	Great Virtue (HK)	2261807017	20 April 2015 – 19 April 2016	Chow Chor Ting, Anthony	5261821692	8 November 2015 – 7 November 2016	Great Virtue (HK)	WT00022554-2015	2 November 2015 – 30 November 2020
Sheung Wan Restaurant and Beijing House Restaurant	Excel Linker	2/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong	Wong Chi Leung	3818810034 (Note 1)	30 October 2015 – 29 April 2016	Yung Siu-wa	5218828217	30 October 2015 – 29 April 2016	N/A	N/A	N/A

#### Notes:

1. As Sheung Wan Restaurant and Beijing House Restaurant were newly opened at the end of October 2015, a provisional general restaurant license with a validity period of six months was issued instead of a formal one, which is expected to be granted upon application for renewal of the license.
2. All the holders of liquor licenses of the Group’s restaurants are either employees of the Group or the Directors.
3. In respect of the water pollution control license, the Olympian Restaurant is exempted from the requirement to obtain a water pollution control license as the premises in which the restaurant is situated is considered by the EPD to meet the water pollution control requirements of the EPD. Sheung Wan Restaurant and Beijing House Restaurant will only apply for the water pollution control license after a few months’ operation of the restaurants as it is necessary to submit the three most recent water bills or estimated water consumption information to the EPD for assessment of the discharge of effluents by the relevant restaurants. Please also refer to the paragraph headed “Non-compliance – Water pollution control-related non-compliance matter” in this section for details.

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The expiry dates of the existing general restaurant licenses and liquor licenses fall between April 2016 and January 2018. The Group has not encountered any difficulty or rejection in obtaining or renewing the licenses in the past and thus the Directors do not foresee any impediments in renewing all such licenses.

During the Track Record Period, the general restaurant licenses of the CWB Restaurant and The One Restaurant were held by Mr. Chan, one of the Controlling Shareholders and an executive Director, as he was the founder of the said restaurants who has all along been responsible for the operation and management of the said restaurants since their respective openings. In order to enhance control of the said restaurants by the Group, the Group has transferred these licenses to the Group.

As disclosed above, the liquor licenses of the Group's restaurants are held by the Controlling Shareholders, director of subsidiaries and senior management of the Group. Please refer to the section headed "Risk Factors" for the risks associated with such arrangement. To protect the Shareholders' interests, each of the holders holding the liquor licenses for the Group has executed all relevant prescribed forms and documents related to the transfer of the liquor license(s) in escrow so that the Group can timely submit these prescribed forms to the LLB to effect the transfer of the liquor license to the new holder designated by the Group from time to time and/or upon notice of the termination of employment with those holders holding the liquor licenses for the Group.

### ***Restaurant in China***

The information below sets out details of the licenses and permits, in respect of the Group's sole restaurant operating in China, i.e. the Shenzhen Restaurant operated by Li Bao Ge Shenzhen:

#### Dining service license 《餐飲服務許可證》

- License number: Yue Can Zheng Zi No. 201344030002196 (粵餐證字 201344030002196號)
- Validity of the current license: 21 October 2016

#### Guangdong Province pollutant discharge license 《廣東省污染物排放許可證》

- License number: 31901
- Validity of the current license: 11 April 2019

#### City water discharge license 《城市排水許可證》

- License number: 14004307
- Validity of the current license: 30 June 2019

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The Group has implemented a set of internal compliance guidelines in order to comply with the relevant laws and regulations in relation to the opening of new restaurants, with the assistance of external professionals if necessary. For example, in Hong Kong, the Group has engaged an external consultant for its new restaurant to render consultancy services covering the preparation of application form and layout for applying for the general restaurant license and providing assistance to FEHD, the Buildings Department and the Fire Services Department upon submission of the said license application. For both Hong Kong and Shenzhen restaurants, the respective administration staff is also responsible for monitoring the licenses required by the related rules and regulations in the industry and monitoring the application or renewal of licenses. The Legal Compliance Committee is formed for overseeing compliance with laws and regulations relevant to operations as well as the adequacy and effectiveness of regulatory compliance procedures and system. The Legal Compliance Committee comprises the compliance officer of the Board, executive Directors, financial controller, company secretary and independent non-executive Directors. The Group would procure to obtain the relevant required licenses prior to the expected opening date of the restaurant.

In respect of the existing licenses and approvals of the Group's restaurants, a full record detailing the validity periods of each license and approval would be maintained and reviewed by the Directors monthly to ensure that all licenses and approvals are valid and subsisting and that renewals of such licenses are made in a timely manner.

## PRODUCT DEVELOPMENT

The Group appreciates the importance of introducing creative dishes regularly to attract a broader customer base and its operating results. In view of it, the Group would update its menus regularly in response to the changing tastes of the customers and general sentiment. In developing new menu items, the head chefs of each of the Group's restaurants consider the market trend, seasonal factor and feedback from the customers who frequently visit the Group's restaurants. They also make variations to the existing dishes according to season and trend, conforming to modern dietetic. All the head chefs of the Group's restaurants have substantial experience in cooking and serving Chinese cuisine and therefore, the Directors are of the view that all the head chefs have sufficient knowledge of local taste and preference and can create dishes that suit the customer needs. Before launching any new dishes, the chief executive officer and all the head chefs gather for tasting the new dishes and they are responsible for making the final approval of any new dishes, their ingredients and prices.

In view of the Directors, in recent years, there is a steady and rapid economic growth in China and the local residents have higher consumption power and demand for quality Chinese food and services than before. In connection with this, the Group's restaurant in China, namely, Shenzhen Restaurant, employed its head chefs from Hong Kong who are experienced in the Cantonese restaurant industry in Hong Kong, with the aim to provide high-quality and modern-style Cantonese dim sum and dishes for its customers.

Moreover, in order to substantiate the cooking techniques and product innovation abilities of the head chefs of the Group's restaurants, the Group urged its head chefs to participate in cooking competitions. In this regard, a head chef of Star of Canton Restaurant won the Gold

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Award and The Most Creative Award for Chicken Dishes Group of The Sixth Open Fire Cooking Competition (第六屆明火食神爭霸戰) organized by the Metro Finance channel of Metro Broadcast Corporation Limited in 2008.

### COMPETITION

The restaurant industry in Hong Kong and China is keen and highly competitive. There are many Chinese restaurants offering different kinds of Chinese cuisine and providing Chinese banquet and dining services for large-scale events. Different Chinese restaurants operators target different customers whose spending power and demands vary. In addition, there are many restaurants in Hong Kong offering non-Chinese cuisine, such as Asian cuisine and international cuisine, while there are many restaurants in China offering various types of Chinese cuisine, such as Jingchuanhu cuisines.

The restaurant industry in Hong Kong and China is also fragmented and diverse. According to the Ipsos Report, barriers to entry into the restaurant business in Hong Kong include a new entrant's ability to hire experienced chefs possessing authentic cooking techniques, and to afford high rent of restaurant premises in times of limited supply of rental space coupled with sustained high rent price situation in the market; while barriers to entry into the restaurant business in the PRC market include a time honoured brand, ability of a new entrant to manage the human resources including maintaining a low staff turnover rate and meeting of initial capital requirement. The size, number, and strength of the competitors in this industry vary widely and there is no significant player dominating the whole industry. Though different segments of the restaurant industry have their own leading players, their individual market share varies from one segment to the other. Thus, the Directors consider that none of the operators in one segment can be treated as a direct competitor of another operator in a different segment.

Generally, competition in the restaurant industry is based on, among other things, quality of food, quality of services, price, location, dining environment and reputation. The Directors believe that it is in an advantaged position in the local Chinese restaurants market compared with many of its competitors and it can maintain such position as it has the following advantages:

- the Group places high emphasis on the quality of food and services to customers;
- the Group preserves traditional Chinese cooking and recipes and continuously introduce creative dishes;
- the Group offers quality food at reasonable prices;
- the Group has an established reputation for quality food;
- the Group has adopted a restaurant network expansion strategy for capturing target customers;

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- the Group has an experienced senior management team; and
- the Group provides comprehensive training to its staff.

## INSURANCE

The Group maintains insurance for employees' compensation liability for personal injury and occupational disease, public liability to cover the Group against any claims of illness, injuries or damage to personal property by the customers, commercial general liability insurance to cover any liability for damages arising out of the business operation, cash policy for loss of money at the business premises, fire insurance, insurance for the properties, plant and equipment in the restaurants.

The Directors are of the view that the aforesaid insurance coverage is sufficient and the nature of coverage is in line with normal commercial practice in Hong Kong and China.

## ENVIRONMENTAL MATTERS

During the food preparation process and operations of the restaurants, certain sewage, used oils and garbage would be produced and maintained by the Group. Apart from the daily cleansing procedure adopted by the Group, the Group also procured external cleansing companies, which are Independent Third Parties, from time to time, if necessary, to provide pest control and cleaning services including but not limited to carpet cleaning, aquarium cleaning and oil tank cleaning to the restaurants of the Group.

The Group's restaurant operations in Hong Kong and China are subject to environmental protection laws and regulations promulgated by the governments of Hong Kong and China respectively. The Group will devote operating and financial resources to environmental compliance whenever it is required by Hong Kong or China laws to do so in the future.

During the Track Record Period, the Group recorded amounts of approximately HK\$190,000, HK\$251,000 and HK\$255,000 for the three years ended 31 December 2015 respectively in compliance with applicable rules and regulations for environmental matters.

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### EMPLOYEES

As at 31 January 2016, the Group had a total of 370 full-time employees. The following table shows the breakdown of the employees by functions as at the Latest Practicable Date:

	Number of employees
Management	5
Finance and accounting	10
Administrative and marketing	5
Purchasing and logistics	7
Personnel	6
Operations	337
	<hr/>
Total	370
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The Group seeks to create a distinct corporate culture that promotes responsibility, achievement, cooperation, team work and career development of employees. It advocates a fair, healthy, caring and balanced corporate culture that will inadvertently create a synergistic result to facilitate employee retention and improve productivity. The Group is also committed to promoting employee engagement to improve the efficiency and sustainability of the organization. The Group intends to continue assessing our employees' engagement and creating a responsive environment to create a high engagement workplace within the Group.

The salary level of employees in the restaurant industry in Hong Kong and China has been steadily increasing in recent years due to changes in labor law and local labor market trends. The Group offers competitive wages and other benefits to its restaurant staff, and makes salary adjustments in response to the local labor market conditions. The lowest starting salaries offered by the Group's restaurants to its restaurant staff in Hong Kong steadily rose upward during the Track Record Period, and were higher than the then applicable minimum wage requirements in Hong Kong. The Directors expect the Group's labor costs to continue to increase as inflationary pressures in Hong Kong and China drive up wages.

During the Track Record Period, the Group did not receive or experience material labor disputes with its employees.

### PROPERTY

#### Owned property

As at the Latest Practicable Date, the Group did not own any property.



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### Leased properties

As at the Latest Practicable Date, the Group leased the following properties in Hong Kong and Shenzhen, the PRC for use as its existing restaurant premises, planned restaurant premises (subject to completion of construction and renovation), offices, storage and staff quarters.

#### *Hong Kong*

##### *CWB Restaurant*

In May 2014, Solarday Investment entered into a lease with an Independent Third Party for the use of a property situated at 21st Floor, Lee Theatre Plaza, 99 Percival Street, Causeway Bay, Hong Kong with a total saleable area of approximately 757 sq.m. as the restaurant premises of CWB Restaurant. The terms of the lease will expire on 31 August 2017.

##### *Olympian Restaurant*

In February 2014, Orient Century entered into a lease with an Independent Third Party for the use of a property situated at Shop UG01, Upper Ground Floor, Olympian City Two, 18 Hoi Ting Road, West Kowloon, Hong Kong with a total saleable area of approximately 865 sq.m. as the restaurant premises of Olympian Restaurant. The terms of the lease will expire on 31 March 2018.

##### *The One Restaurant*

In September 2013, Great Virtue (HK) entered into a lease with an Independent Third Party for the use of a property situated at 17th Floor, The ONE, 100 Nathan Road, Tsim Sha Tsui, Hong Kong with a total saleable area of approximately 598 sq.m. as the restaurant premises of The One Restaurant. The terms of the lease will expire on 31 August 2016. In October 2015, Great Virtue (HK) entered into a lease with the same Independent Third Party to extend the lease term of The One Restaurant to 31 August 2019.

##### *Sheung Wan Restaurant and Beijing House Restaurant*

In July 2015, Excel Linker entered into a lease with an Independent Third Party for the use of a property situated at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong with a total saleable area of approximately 1,532 sq.m. as the restaurant premises of the Sheung Wan Restaurant and the Beijing House Restaurant. The terms of the lease will expire on 10 August 2018.

##### *Office in Hong Kong*

In August 2015, Solarday Investment Limited entered into a lease with an Independent Third Party for the use of a property situated at Unit No. 2, Level 27, Tower B, Kowloon Commerce Centre, No. 51 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong with a total saleable area of approximately 2,622 square feet as the office premises of the Company. The terms of the lease will expire on 16 August 2018.

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### *Shenzhen, the PRC*

#### *Shenzhen Restaurant*

In December 2012, Mr. Chan entered into a lease with an Independent Third Party for the use of a property situated at Unit 1, Level 2, Tower 3, Kerry Plaza, No. 1-1 Zhong Xin Si Road, Futian District, Shenzhen City, the PRC with a total saleable area of approximately 2,980 sq.m. as the restaurant premises of Shenzhen Restaurant. The terms of the lease will expire on 31 July 2019. Pursuant to a deed of novation dated 25 October 2013 and signed between Li Bao Ge Shenzhen, Mr. Chan and Kerry Development (Shenzhen) Co., Ltd., all rights and obligations under the subject lease for the remaining term had been transferred to Li Bao Ge Shenzhen on 25 October 2013 with Mr. Chan being the guarantor for the observance of obligations of the terms of the lease.

#### *Shenzhen Uniwalk Restaurant (the building in which the restaurant premises will be located is still under construction)*

In 2014, Orient Shenzhen entered into a lease agreement with an Independent Third Party for the use of a property, which is still under construction, situated at Shops 003A and 005, Level L4, Uniwalk Shopping Mall (壹方城購物中心), Qianhai, Baoan District, Shenzhen City, the PRC with a tentative total saleable area of 2,803 sq.m. as the restaurant premises of Shenzhen Uniwalk Restaurant. The terms of the lease is 10 years commencing from the expiry of a 210-day renovation period, which is yet to be determined depending on the formal handover of the restaurant premises to Orient Shenzhen upon completion of construction.

#### *Shenzhen One Avenue Restaurant (the building in which the restaurant premises will be located is still under construction)*

In 2015, Orient Shenzhen entered into a lease agreement with an Independent Third Party for the use of a property, which is still under construction, situated at Shops CL5002 and CL5003, Level L5, One Avenue (中央大街) (tentative name of the construction project subject to final approval by the relevant local government department), Futian District, Shenzhen City, the PRC with a tentative total saleable area of 1,721 sq.m. as the restaurant premises of Shenzhen One Avenue Restaurant. The terms of the lease is 9 years commencing from the earlier of the expiry of a 180-day renovation period or the opening day of the restaurant, which is yet to be determined depending on the formal handover of the restaurant premises to Orient Shenzhen upon completion of construction.

#### *Office in the PRC*

In September 2015, Orient Shenzhen entered into a lease agreement with an Independent Third Party for the use of a property situated at Room 04-L, Level 13, Tower 3, Kerry Plaza, No. 1-1 Zhong Xin Si Road, Futian District, Shenzhen City, the PRC as the office premises of Orient Shenzhen. The terms of the lease will expire on 17 September 2016.

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### *Storage in the PRC*

In September 2013, Li Bao Ge Shenzhen entered into a lease agreement with an Independent Third Party for the use of a property situated at Store Room No. 03, Level B1M, Tower 3, Kerry Plaza, No. 1-1 Zhong Xin Si Road, Futian District, Shenzhen City, the PRC as the storage of Li Bao Ge Shenzhen. The terms of the lease will expire on 31 July 2019.

### *Staff quarters in China*

Li Bao Ge Shenzhen entered into 20 leases with Independent Third Parties for the use of certain properties situated at Futian Districts, Shenzhen City, the PRC as staff quarters of Li Bao Ge Shenzhen, where some of the leases were signed by staff with rental payments borne by Li Bao Ge Shenzhen and directly paid by Li Bao Ge Shenzhen to the landlords. The terms of the leases will expire from May 2016 to October 2016.

The Directors confirm that all the above-mentioned leases agreements were negotiated on an arm's length basis with reference to the prevailing market rates.

The following table sets out the details of the Group's existing operating leases for its restaurants, including those planned to be opened in 2017:

Name of restaurant	Location	Lease term	Estimated saleable area (sq.m.) (Note 1)	Monthly basic rent	Approximate monthly basic rent per sq.m. (Note 3)	Monthly turnover rent	Notice period for early termination	Option for renewal
<i>Hong Kong</i>								
1 CWB Restaurant	Lee Theatre Plaza, Causeway Bay	1 September 2014 – 31 August 2017	757	HK\$430,100	HK\$568	the amount by which 13% of the restaurant's monthly gross turnover exceeds the monthly basic rent	6 months' prior notice (Note 4)	No
2 Olympian Restaurant	Olympian City Two, West Kowloon	1 April 2013 – 31 March 2018	865	HK\$600,000 for the first year, with annual increment of HK\$25,000 in subsequent years	HK\$694 (illustrated for the first year only)	the amount by which 12% of the restaurant's monthly gross turnover exceeds the monthly basic rent	6 months' prior notice (Note 4)	No

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	Name of restaurant	Location	Lease term	Estimated saleable area (sq.m.) (Note 1)	Monthly basic rent	Approximate monthly basic rent per sq.m. (Note 3)	Monthly turnover rent	Notice period for early termination	Option for renewal
3	The One Restaurant	The ONE, Tsim Sha Tsui	1 September 2013 – 31 August 2016	598	HK\$540,000	HK\$903	the amount by which 11% of the restaurant's monthly gross turnover exceeds the monthly basic rent	3 months' prior notice (Note 4)	No
4	The One Restaurant	The ONE, Tsim Sha Tsui	1 September 2016 – 31 August 2019	598	HK\$650,000	HK\$1,087	the amount by which 13% of the restaurant's monthly gross turnover exceeds the monthly basic rent	3 months' prior notice (Note 4)	Renewable for further 2 years, at: (i) a new monthly basic rent to be agreed by both parties or based on the then prevailing market rent; plus (ii) a turnover rent, being the amount by which 13% of the restaurant's monthly gross turnover exceeds the new monthly basic rent

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Name of restaurant	Location	Lease term	Estimated saleable area (sq.m.) (Note 1)	Monthly basic rent	Approximate monthly basic rent per sq.m. (Note 3)	Monthly turnover rent	Notice period for early termination	Option for renewal
5 Sheung Wan Restaurant and Beijing House Restaurant	Infinitus Plaza, Sheung Wan	11 August 2015 – 10 August 2018	1,556	HK\$1,188,000	HK\$763	the amount by which 10% of the restaurant's monthly gross turnover exceeds the monthly basic rent	6 months' prior notice (Note 4)	Renewable for further 3 years, at a monthly rental being the higher of (i) basic rent in the range of HK\$1,188,000 to HK\$1,425,060 (to be agreed by both parties); and (ii) 10.5% of gross turnover
<i>Shenzhen, the PRC</i>								
6 Shenzhen Restaurant	Kerry Plaza, Futian District	1 August 2013 – 31 July 2019	2,980	RMB302,105 for the first two years, with annual increment of approximately 9.1% to 25.0% in subsequent years	RMB101 (illustrated for the first year only)	the amount by which 8% (for 1st year)/11% (for 2nd to 4th years)/12% (for 5th to 6th years) of the restaurant's monthly gross turnover exceeds the monthly basic rent	(Note 5)	Renewable for further 3 years, with rental to be agreed by both parties
7 Shenzhen Uniwalk Restaurant	Uniwalk Shopping Mall, Qianhai, Baoan District	10 years from the expiry of renovation period (Note 2)	2,803	Nil for the first three months, RMB305,760 for 3rd to 24th month, with annual increment of approximately 6.5% to 9.2% in subsequent years	RMB109 (illustrated for the first year only)	the amount by which 7% (for 1st to 2nd years)/8% (for 3rd to 4th years)/9% (for 5th to 6th years)/10% (for 7th to 10th years) of the restaurant's monthly gross turnover exceeds the monthly basic rent	(Note 5)	Renewable with first right of refusal

## BUSINESS

Name of restaurant	Location	Lease term	Estimated saleable area (sq.m.) (Note 1)	Monthly basic rent	Approximate monthly basic rent per sq.m. (Note 3)	Monthly turnover rent	Notice period for early termination (Note 5)	Option for renewal
8 Shenzhen One Avenue Restaurant	One Avenue, Futian District	9 years from the earlier of the expiry of renovation period or the restaurant opening day (Note 2)	1,721	RMB309,780 for the first year, with annual increment of approximately 4.9% to 11.1% in subsequent years	RMB180 (illustrated for the first year only)	the amount by which 8% (for 1st to 3rd years)/9% (for 4th to 6th years)/10% (for 7th to 9th years) of the restaurant's monthly gross turnover exceeds the monthly basic rent		Renewable with first right of refusal

*Notes:*

1. The estimated saleable area is for reference only and is not indicated in the lease agreements of Hong Kong restaurants, nor does it represent the same measurement standard as those indicated in the lease agreements of the PRC restaurants.
2. As the building in which the restaurant will be situated is still under construction, the commencement date of the lease term is to be determined upon the formal handover of the restaurant premises to the tenant after the completion of construction.
3. The approximate monthly basic rent per sq.m. is for illustration purpose only and does not represent the basis of monthly basic rent charged under the relevant lease agreement.
4. The prior notice period refers to the right of the landlord to early terminate the lease in case of sale, redevelopment, refurbishment or similar events of the restaurant premises or the relevant building by the landlord. Except as aforesaid and other than exceptional circumstances such as default of payment or breach of warranties by tenant, resumption of premises by the government, and occurrence of events beyond the control of both parties, which are expressly stated in the lease, under no circumstances could the landlord or the tenant terminate the lease without the parties' mutual consent.
5. Other than exceptional circumstances such as default of payment or breach of warranties by tenant, resumption of premises by the government, and occurrence of events beyond the control of both parties, which are expressly stated in the lease, under no circumstances could the landlord or the tenant terminate the lease without the parties' mutual consent.



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## BUSINESS

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### INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, the Group owned: (i) two registered trademarks in China, which are registered under the name of Star China and being used by the Group; and (ii) two registered trademarks in Hong Kong, which are registered under the name of Solarday Investment and being used by the Group.

The Group made application for the registration of two trademarks in Hong Kong under class 43 to the Trade Marks Registry in Hong Kong. The applications were still being processed as at the Latest Practicable Date.

The Group has registered the following domain name: [www.starofcanton.com.hk](http://www.starofcanton.com.hk).

Information relating to the Group's intellectual property rights is set out in the paragraph headed "Statutory and General Information – B. Further Information about the Business – 2. Intellectual property rights of the Group" in Appendix IV to this document.

During the Track Record Period and up to the Latest Practicable Date, the Group had not received any claim against it for infringement of any trademark nor was it aware of any pending or threatened claims in relation to any such infringement; and the Group had not made any claims against third parties with respect to the infringement of intellectual property rights owned by the Group. The Directors are not aware of any legal impediment which may prevent the Group from having the above trademarks registered in Hong Kong.

### INVESTMENT AND TREASURY POLICIES

The Group invested in and traded in equity securities listed on the Stock Exchange during the Track Record Period. The Group has fully disposed of such investments in securities in August 2015 and recorded a net loss on disposal of financial assets at fair value through profit or loss of approximately HK\$2.5 million for the year ended 31 December 2015. Such investments were made by Orient Century and were authorized by Mr. Chan as director of Orient Century.

It is the intention of the Directors that the Group will not invest in financial or derivative securities (including entering into foreign currency derivative arrangements), other than for the purpose of hedging of financial or business risk of the Group, group reorganisation, repurchase of the Company's shares or acquisition of interest in other business that is made in accordance with the GEM Listing Rules. Except for those circumstances as aforesaid, any surplus funds of the Group will only be deposited in licensed banks in Hong Kong or the PRC as general working capital. The Directors confirm that, since the Track Record Period and up to the Latest Practicable Date, the Group did not enter into any transaction for hedging purpose.

### LEGAL PROCEEDINGS

As at the Latest Practicable Date, the Group was not involved in any litigation or arbitration proceedings pending or, to the Company's knowledge, threatened against the Group or any of the Directors that could have a material adverse effect on the Group's business, reputation, financial condition or results of operations.

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## BUSINESS

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### Indemnity from the Controlling Shareholders

The Controlling Shareholders [have] entered into the Deed of Indemnity in favour of the Group to provide, subject to the terms and conditions of the Deed of Indemnity, indemnities on a joint and several basis in respect of, among other matters, any claims, payments, suits, damages, settlement payments, costs and expenses which would be incurred or suffered by the Group as a result of any litigation, arbitration and/or legal proceedings, whether of criminal, administrative, contractual, tortious or otherwise nature against any member of the Group in relation to any act, non-performance, omission or otherwise of any member of the Group on or before the date on which the [REDACTED] becomes unconditional. Please refer to the section headed “Statutory and General Information – E. Other information – 1. Tax and other indemnities” in Appendix IV to this document for details of the Deed of Indemnity.

### NON-COMPLIANCE

The Directors confirm that save as disclosed below, the Group has complied in all material respects with the applicable laws and regulations in Hong Kong during the Track Record Period and up to the Latest Practicable Date.

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### Employees-related Non-compliance Matter

Particulars of the non-compliance	Reasons for the non-compliance	Remedial actions	Potential maximum penalty/fine	Analysis of the risk to the Company	Internal control measures
During the Track Record Period, the Group did not file the necessary Form 2 (Notice by Employer of the Death of an Employee or of an Accident to an Employee Resulting in Death or Incapacity) to the Commissioner of Labour within 14 days after the accidents which resulted in the injuries of the employees for 13 instances for the period from February 2013 to December 2014, which contravened section 15 of the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) (the "ECO"). The 13 instances of	(i) The non-compliance was not an intentional act to deprive the relevant employees from compensation in accordance with the ECO but was due to the Group's reliance on its human resources and administrative staff for the filing of the required forms who did not have adequate understanding of the relevant requirements under the ECO.  (ii) There was lack of sufficient procedures to keep track of the compliance status with respect to the reporting of work injury cases as required under the ECO.	The Group has filed all the relevant Form 2 not later than 45 days after each of the accidents.	Under section 15(6) of the ECO, if there is no reasonable excuse, failure to give such notice will result in criminal liability on the part of the companies and they are liable to a maximum fine of HK\$50,000 for each offence.  As at the Latest Practicable Date, the Group has not received any notice, warning, order or prosecution from the Labour Department.	As advised by the Legal Counsel, since the number of instances of the non-compliance is not particularly high and the duration of lateness is not particularly serious, such non-compliances are quite minor and benign in nature and do not warrant definite prosecution. The chance for prosecution is very low.	Starting from the end of August 2015, the Group has implemented enhanced procedures for the timely and due reporting of all work-related accidents, including:  (i) upon occurrence of a work-related accident, the involved workers shall promptly report the accident to the human resources manager in each restaurant;  (ii) the human resources manager in each restaurant is responsible to file the prescribed form in accordance with the ECO and upon occurrence of a work-related accident, he or she shall complete the form within seven days after the accident;  (iii) such form will be passed to the restaurant manager for review, who shall submit the form within ten days after the accident;  (iv) the copies of the required forms should be sent to the human resources and administration officer every week and filed at the head office. The finance manager is responsible to review the forms monthly; and

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Particulars of the non-compliance	Reasons for the non-compliance	Remedial actions	Potential maximum penalty/fine	Analysis of the risk to the Company	Internal control measures
accidents resulted in minor injuries of the employees of the Group, of which: (i) four resulted in cuts in fingers; (ii) six resulted in twists or strains; (iii) two resulted in scalds; and (iv) one resulted in bruise.					(v) regular trainings will be provided to the workers of the restaurants on at least an annual basis as to the procedures for the reporting of work-related accidents.

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### Buildings Ordinance-related Non-compliance Matter

Particulars of the non-compliance	Reasons for the non-compliance	Remedial actions	Potential maximum penalty/fine	Analysis of the risk to the Company	Internal control measures
During the Track Record Period, the Group used a unit of a building located in Kwai Chung, Hong Kong (the "Premises") for storage of frozen meat and offices, which did not comply with the relevant occupation permit. As the Buildings Authority was not notified regarding the change of user, there was a breach of the conditions imposed by the relevant occupation permit and section 25(1) of the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong).	In reliance on its administrative staff who were not aware of the laws pertaining to the use of properties, the Group did not seek professional advice from any external professional parties prior to the commencement of the use of any property.	In September 2015, the Group had ceased to use the Premises for the storage of frozen meat and offices and relocated to another property for offices.	Under section 40(2) of the Buildings Ordinance, the Group is liable to a maximum fine of HK\$100,000 and the relevant directors of the members of the Group are also liable to a maximum fine of HK\$100,000 and imprisonment for 2 years maximum if any offence committed by a body corporate with the consent or connivance of, or to be attributable to any neglect or default on the part of them.	As advised by the Legal Counsel, since the breaches of the occupation permit are past breaches and there was no breach as at the Latest Practicable Date, there is no basis to suggest that the Group will commit further breach in the future and the chance of prosecution is very low.	Starting from the end of September, the following measures have been implemented to address the underlying reasons for the non-compliance: <ul style="list-style-type: none"> <li>(i) the executive Directors and senior management have been designated to handle and monitor the process of occupation of properties for restaurant, storage and office uses, including ascertaining the legal use of properties and obtaining any necessary approvals where applicable;</li> <li>(ii) prior to commencing the occupation or changing the usage of any properties, the Group will seek legal advice from external legal advisers;</li> <li>(iii) regular training sessions will be provided by external legal advisers to the Directors as well as the administrative staff on at least an annual basis on major legal issues in relation to the occupation of properties; and</li> <li>(iv) the Legal Compliance Committee is responsible for overseeing the compliance with laws and regulations in relation to the occupation of properties.</li> </ul>

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### Fire Services-related Non-compliance Matter

Particulars of the non-compliance	Reasons for the non-compliance	Remedial actions	Potential maximum penalty/fine	Analysis of the risk to the Company	Internal control measures
During the Track Record Period, the Group failed to maintain means of escape in the Group's restaurants free from obstruction for four instances, which contravened section 14 of the Fire Services (Fire Hazard Abatement) Regulation (Chapter 95F of the Laws of Hong Kong).	The Group required the restaurant managers to check the means of escape but there was lack of continuing supervision as to whether the checking was completed and detailed implementation of the frequency of checking.	The Group completed all rectification works as required by the Fire Services Department and fines in an aggregate amount of HK\$153,000 imposed by the magistrates' courts were paid.	None. As the fines were settled by the Group, the Group is not subject to the maximum penalty or fine under the Fire Services (Fine Hazard Abatement) Regulation.	As advised by the Legal Counsel, since the Group was sentenced already and the fines were settled, the Group is no longer exposed to any risk.	Starting from mid-October, the following measures have been implemented to address the underlying reasons for the non-compliance:  (i) the Group has designated a staff in each restaurant to check the means of escape are free from obstruction three times a day and each staff is required to record his/her time of checking to ensure full compliance;  (ii) the restaurant manager of each restaurant is required to check such record every day to ensure the checking is done three times a day; and  (iii) regular training sessions will be provided by external legal advisers to the staff of the Group's restaurants on at least an annual basis on the safety related laws and regulations in the operation of restaurants.

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### Water pollution control-related Non-compliance Matter

Particulars of the non-compliance	Reasons for the non-compliance	Remedial actions	Potential maximum penalty/fine	Analysis of the risk to the Company	Internal control measures
During the Track Record Period, the Group did not obtain the relevant water pollution control licenses for its business operations, in breach of sections 8 and 9 of the Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong).	The Group relied on the advice by its external license consultant on license requirements and the external license consultant advised that no application for water pollution control licenses is required for the Group's restaurants unless requested by the relevant authority in writing. As such, the scope of services of the external license consultant only covered the operation of the restaurants but did not take into account those license requirement(s) incidental to the operation of the restaurants.	On 10 September 2015, the Group applied for the water pollution control licenses for all its restaurants in Hong Kong. Save for the I-Square Restaurant which ceased operations in November 2015, the Sheung Wan Restaurant, the Beijing House Restaurant and the Olympian Restaurant which is exempted from obtaining such license, the Group has obtained the necessary water pollution control licenses for all of its restaurants as at the Latest Practicable Date.	Under section 11 of the WPCO, the maximum sentence for contravention of section 9(1) of the WPCO is imprisonment for 6 months and for a first offence a fine of HK\$200,000, for a second or subsequent offence, a maximum fine of HK\$400,000 and for continued offence, a maximum daily fine of HK\$10,000. The Group is a body corporate so it can only be sentenced to pay fines but the responsible officers in principle can be sentenced to imprisonment. As at the Latest Practicable Date, the Group has not received any notice, warning, order or prosecution from the EPD.	Considering that the Group has taken remedial measures and that the non-compliances were not willful since the Group had all along been relying on the external professional licensing consultant, the Legal Counsel has advised that those non-compliances do not warrant definite prosecution, and the chance of prosecution is very low.	Starting from mid-October, the following measures have been implemented to address the underlying reasons for the non-compliance: <ul style="list-style-type: none"> <li>(i) the Company has extended the scope of services of its external license consultant which includes the application for all required licenses according to the operation of the Group's restaurants and those incidental to the Group's operation;</li> <li>(ii) The Group will engage an additional external license consultant for second opinion on the license requirements of any new restaurants of the Group in the future;</li> <li>(iii) the human resources and administrative officer is responsible for monitoring the licenses required by the related rules and regulations in the industry. The restaurant manager is responsible for monitoring the expiry date of existing licenses. He or she is required to ask the human resources and administrative officer to renew the licenses four months before expiry. The human resources and administrative officer shall complete the renewal 15 days before expired and send the original copies to the related branches seven days before the current licenses expire. The restaurant manager should then update the licenses upon receipt of the renewed licenses; and</li> </ul>



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Particulars of the non-compliance	Reasons for the non-compliance	Remedial actions	Potential maximum penalty/fine	Analysis of the risk to the Company	Internal control measures
		<p>Wan Restaurant and the Beijing House Restaurant have not received any water bill yet as at the Latest Practicable Date, they have not applied for the water pollution control license(s). The Group shall apply for the water pollution control license(s) for the Sheung Wan Restaurant and the Beijing House Restaurant immediately upon receipt of the first water bill. The Group shall obtain the water pollution control license(s) for the Sheung Wan Restaurant and the Beijing House Restaurant after the [REDACTED].</p> <p>The Group has received replies from the EPD that it is unnecessary to apply for water pollution control license for the Olympian Restaurant.</p>			<p>(iv) the Legal Compliance Committee is responsible for ensuring the implementation of the above internal procedures and overseeing the compliance with laws and regulations in relation to licensing requirements.</p>

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### General Non-compliance Matter

Particulars of the non-compliance	Reasons for the non-compliance	Remedial actions	Potential maximum penalty/fine	Analysis of the risk to the Company	Internal control measures
1. Late filing – during the Track Record Period, the Group did not file corporate forms regarding change of information and particulars of directors and secretaries of the Group such as appointments, resignations and change of addresses of the directors and secretaries with the Companies Registry on 11 occasions, which contravened sections 158(4) and 158(4AA) of the Predecessor Companies Ordinance and sections 645 and 652 of the Companies Ordinance.	<p>The non-compliances were due to:</p> <p>(i) inadvertent oversight on the part of the Group's human resources and administrative staff for filing of company records who did not have adequate understanding of the relevant requirements under the Companies Ordinance and the Predecessor Companies Ordinance; and</p> <p>(ii) lack of sufficient procedures to ensure strict compliance with the Companies Ordinance and the Predecessor Companies Ordinance.</p>	1. The Group has made all necessary filings by September 2015.	1. Under section 158(8) of the Predecessor Companies Ordinance, breach of sections 158(4) and 158(4AA) of the Predecessor Companies Ordinance renders the company and every officer in default liable to a maximum principal fine of HK\$10,000 and a maximum daily default fine of HK\$300 for each offence. Under the sections 645(6) and 652(3) of the Companies Ordinance, the company and every responsible person is liable to a maximum principal fine of HK\$25,000 and a maximum daily default fine of HK\$700 for each offence for breach of sections 645 and 652 of the Companies Ordinance.	1. As advised by the Legal Counsel, the offences are minor and technical offences. Given that the natures of the offences themselves are not particularly serious, the chance of prosecution is very low.	<p>Starting from September 2015, the following measures have been implemented to address the underlying reasons for the non-compliance:</p> <p>(i) regular training sessions will be provided by external legal advisers to the Directors as well as the human resources and administrative staff on at least an annual basis on the compliance with the Companies Ordinance;</p> <p>(ii) the financial controller and company secretary, Ms. Hui Wai Shu Jessica (whose qualifications and experience are set out in the section headed "Directors and senior management" in this document) is responsible for (a) keeping the filing register up to date on a monthly basis to ensure ongoing compliance; and (b) preparation of financial statements of the members of the Group in a timely manner and ensure that the financial statements are sent to the members and properly laid before the annual general meetings of the members of the Group in accordance with the Companies Ordinance; and</p>

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Particulars of the non-compliance	Reasons for the non-compliance	Remedial actions	Potential maximum penalty/fine	Analysis of the risk to the Company	Internal control measures
2. Failing to send copies of financial statements and lay audited financial statements – during the Track Record Period, the Group failed to send copies of financial statements to members before at least 21 days before the annual general meeting, which contravened section 129G of the Predecessor Companies Ordinance and section 430 of the Companies Ordinance. The Group failed to lay financial statements before the company in annual general meeting, which contravened section 122 of the Predecessor Companies Ordinance and section 429 of the Companies Ordinance.		2. N/A	2. (A) Regarding the contravention of section 430 of the Companies Ordinance and section 129G of the Predecessor Companies Ordinance, (a) it is a criminal offence rendering the company and every responsible person liable to a maximum fine of HK\$50,000, for each offence under section 433 of the Companies Ordinance; and (b) the company and every officer of the company who is in default shall be liable to a maximum fine of HK\$10,000 under the Twelfth Schedule of the Predecessor Companies Ordinance.  (B) Regarding the contravention of section 429 of the Companies Ordinance and section 122 of the Predecessor Companies Ordinance, the maximum penalty is HK\$300,000 and 12 months' imprisonment for each offence for wilful breach under both the Twelfth Schedule of the Predecessor Companies Ordinance and section 429(4) of the Companies Ordinance. The court cannot order prison sentence for non-wilful breach.	2. As advised by the Legal Counsel, as these are not the worst type of cases since it is not a failure to prepare accounts at all, the chance of prosecution is relatively low.	(iii) the Legal Compliance Committee is responsible for ensuring the implementation of the above internal procedures and overseeing the non-compliance of the members of the Group with the Companies Ordinance.

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Particulars of the non-compliance	Reasons for the non-compliance	Remedial actions	Potential maximum penalty/fine	Analysis of the risk to the Company	Internal control measures
			As at the Latest Practicable Date, the Group has not received any notice, warning, order or prosecution in respect of the violation of the Predecessor Companies Ordinance or the Companies Ordinance.		

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### Store-value Cards-related Non-Compliance Matter

Particulars of the non-compliance	Reasons for the non-compliance	Remedial actions	Potential maximum penalty/fine	Analysis of the risk to the Company	Internal control measures
During the Track Record Period, the Shenzhen Restaurant had issued store-value membership cards (the “Store-value Cards”) without filing particulars of such membership cards with the local commerce department and the applicable card rules and custodian account arrangement thereof did not fully comply with the applicable laws and regulations in the PRC.	The Group relied on its staff in the Shenzhen Restaurant who was not aware of the applicable legal requirements on the Store-value Cards in the PRC.	The Shenzhen Restaurant has: (i) completed the filing procedure with the local authority; (ii) set up a custodian bank account and deposited necessary fund therein; and (iii) revised the applicable rules for the membership cards in accordance with the application laws and regulations in the PRC.	As advised by the PRC Legal Adviser, the Shenzhen Restaurant may be required by the relevant authority to rectify the non-compliance within a prescribed period of time, and if the rectification is not completed within the prescribed period, the Shenzhen Restaurant will be subject to a fine between RMB10,000 and RMB30,000, and such penalties may be announced through public media, pursuant to the Administrative Measures for Single-Purpose Commercial Prepaid Cards (for Trial Implementation)* (單用途商業預付卡管理辦法(試行)) (the “Administrative Measures”).	As advised by the PRC Legal Adviser, given that: (i) the non-compliance has been duly rectified before the relevant authority required rectification; (ii) the current arrangement of the membership cards of the Shenzhen Restaurant complies with all applicable laws and regulations in the PRC in material respects; and (iii) after consulting the relevant local authority, it was confirmed that the Shenzhen Restaurant will not receive administrative penalty for the previous non-compliance if the non-compliance has been voluntarily rectified and the local authority received no complaint before the rectification, the Shenzhen Restaurant will not receive any administrative penalty for the previous non-compliance.	Starting from the end of October, the following measures have been implemented to address the underlying reasons for the non-compliance:  (i) the Group has designated an administrative staff in the Shenzhen Restaurant to ensure compliance of the Store-value Cards with the applicable laws and regulations in the PRC;  (ii) regular training sessions will be provided by external legal advisers to the staff of the Group’s restaurant(s) in the PRC on at least an annual basis on the relevant laws and regulations in relation to the operation of restaurants in the PRC; and  (iii) the Legal Compliance Committee is responsible for overseeing the operation of the Group’s restaurant(s) in the PRC and ensuring continuous compliance with the applicable laws and regulations in the PRC including but not limited to the Administrative Measures.

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### **No provision**

No provision was made in the financial statements of the Group in respect of the aforementioned non-compliance incidents as the Directors have taken into consideration the following: (i) as confirmed by the Directors, save as to the non-compliances which have been convicted, the Group had not received any notices for any fines or penalties in relation to the aforementioned non-compliance incidents up to the Latest Practicable Date; (ii) as mentioned above, the Legal Counsel advised that the chance of prosecution in respect of the aforementioned non-compliance incidents is quite remote, unlikely, not high or the Group is no longer exposed to any risk; and (iii) the Controlling Shareholders shall indemnify the Group as mentioned below in relation to the aforementioned non-compliance incidents.

Based on the advice of the Legal Counsel on each of the non-compliances as abovementioned, the Directors are of the view that there would be no material impact on the Group's operation or financial positions as a result of the above instances of non-compliance.

### **Indemnity given by the Controlling Shareholders**

The Controlling Shareholders, collectively as the indemnifiers, [have] entered into the Deed of Indemnity in favour of the Company, under which the indemnifiers jointly and severally covenant and undertake with the Company to indemnify the Group against losses, liabilities, damages, costs, claims and expenses incurred by the Group in relation to these non-compliance matters on or before the date on which the [REDACTED] becomes unconditional. More details of the Deed of Indemnity are set out in the section headed "Statutory and General Information – E. Other information – 1. Tax and other indemnities" in Appendix IV to this document.

### **Internal control measures to prevent the recurrence of non-compliance incidents**

In order to continuously improve the Group's corporate governance and to prevent recurrence of the abovementioned non-compliances in the future, in addition to the aforementioned internal control measures, the Group has, after taking into account the recommendations made by CT Partners, adopted the following measures:

#### *Establishment of the Legal Compliance Committee*

Upon [REDACTED], the Company will establish the Legal Compliance Committee for the purpose of assisting in overseeing compliance with laws and regulations relevant to operations as well as the adequacy and effectiveness of regulatory compliance procedures and system. The Legal Compliance Committee will comprise: (i) Mr. Lam Kwok Leung Peter, the compliance officer of the Company and an executive Director; (ii) Ms. Hui Wai Shu Jessica, the financial controller and company secretary of the Company; (iii) Mr. Liu Chi Keung, an independent non-executive Director; (iv) Prof. Wong Lung Tak Patrick, an independent non-executive Director; and (v) Mr. Tam Tak Kei Raymond, an independent non-executive Director. While Mr. Lam Kwok Leung Peter has been one of the investors of the Group through his interest in Sun Foo Sing, he did not actively participate in the daily management of the

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Group but only involved in the overall strategic development of the Group. He became a director of each of Solarday Investment and Orient Century with an aim to safeguarding his position as an investor. Upon [REDACTED], Mr. Lam Kwok Leung Peter will take an active role in the daily management of the Group. Being an executive Director, the compliance officer of the Company and a member of the Legal Compliance Committee, he shall be responsible for, among other things, ensuring the compliance of the Group with all applicable laws and regulations and implementation of the relevant internal control measures. Mr. Lam Kwok Leung Peter has expertise in leasing arrangements as he held various senior roles in few property developers in Hong Kong and is a member of the Royal Institution of Chartered Surveyors. Given his educational qualifications and managerial experience in certain private companies in Hong Kong and together with the support and guidance from CT Partners and other external professional parties, the Directors are of the view that he is suitable and capable, and will be well-equipped for the role of compliance officer of the Company. Ms. Hui Wai Shu Jessica, the financial controller and company secretary of the Company, is another member of the Legal Compliance Committee. Prior to joining the Group, she was the Financial Controller of a catering group company, whereby she gained experience in ensuring compliance with the Companies Ordinance and the accounting standards. She was responsible for checking records of directors' meetings and annual general meetings; assisting the company secretary to arrange for the annual general meetings; coordinating the required forms to be filed at the Companies Registry of Hong Kong; and preparing the management accounts in accordance with the accounting standards. She was also responsible for internal control matters including reporting any irregularities found in the management accounts of the companies to the directors; ensuring that the manager in charge bank-in all cash that matches the cash sales slips from cashiers; ensuring that the relevant forms and tax returns were submitted to the Inland Revenue Department within the time limit and carrying out sample checking; and setting up schedules to tie up figures to ensure accuracy. Her ample experience in accounting, company secretarial and internal control matters shall assist the Group in complying with the Companies Ordinance and accounting standards, as well as implementing the internal control measures, in all respects. Please refer to the section headed "Directors and Senior Management" in this document for further details on the qualifications and experience of the members of the Legal Compliance Committee. The Legal Compliance Committee shall:

- review the effectiveness of the Group's regulatory compliance procedures and system, including operational and compliance procedures and risk management functions;
- assess and review the adequacy of resources, staff qualifications and experience, and training programmes in relation to the Group's regulatory compliance functions;
- assist the Audit Committee in overseeing the Group's corporate governance functions, which includes (i) developing and reviewing the policies and practices on corporate governance and making recommendations to the Audit Committee on a quarterly basis; (ii) reviewing and monitoring the training and continuous professional development of Directors and senior management; (iii) reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements; and (iv) reviewing the compliance with the Corporate Governance Code set out in Appendix 15 to the GEM Listing Rules and the disclosure in the Corporate Governance Report;



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- receive and handle any actual or suspected non-compliance matters reported by the employees of the Group and engage external professional advisers, such as legal advisers and accountants, to assist in the preparation of reports and recommendations in respect of such actual or suspected non-compliance matters; and
- review the effectiveness of the Group's ongoing measures to prevent future non-compliance incidents and provide updates on the applicable laws related to the Group's business operations with the assistance of external professional parties including legal advisers as to Hong Kong law and PRC law, compliance adviser, and internal control consultant from time to time.

### *General internal control measures*

1. In September 2015, the Directors attended training sessions conducted by the legal advisers as to Hong Kong law on the on-going obligations and duties of a director of a company whose shares are listed on the Stock Exchange.
2. The Company will engage CT Partners to have an annual review on the adequacy and effectiveness of our internal control system for the years ending 31 December 2016 and 2017, including areas of financial, operational, compliance and risk management. The Directors shall decide from time to time whether to engage CT Partners or other professional parties for review of its internal control system subsequently.
3. [On [●] 2016, the Company established the Audit Committee which comprises all independent non-executive Directors, namely Mr. Liu Chi Keung, Prof. Wong Lung Tak Patrick and Mr. Tam Tak Kei Raymond. The Audit Committee has adopted its terms of reference which sets out clearly its duties and obligations including, among other things, overseeing the internal control procedures and accounting and financial reporting matter of the Group, and ensuring compliance with the relevant laws and regulations.]
4. [The Company has engaged Ample Capital as its compliance adviser and will, upon [REDACTED], engage legal advisers as to Hong Kong laws and PRC laws, which will advise and assist the Board on compliance matters in relation to the GEM Listing Rules and/or other relevant laws and regulations applicable to the Group and its business.]
5. Regular training sessions to be given by external legal advisers will be arranged for all of the Directors on at least an annual basis in order to develop and refresh their relevant knowledge and skills in relation to compliance matters.
6. When considered necessary and appropriate, the Company will seek professional advice and assistance from independent internal control consultants, external legal advisers and/or other appropriate independent professional advisers with respect to matters related to its internal controls and legal compliance.

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### Review by CT Partners

In preparation for the [REDACTED], in July 2015, the Company engaged CT Partners, an independent internal control adviser, to perform an evaluation under the Committee of Sponsoring Organisations of the Treadway Commission's 2013 framework of the adequacy and effectiveness of the Group's internal control system including the areas of financial, operation, compliance and risk management.

CT Partners is a company rendering internal control review services, which has been previously engaged in internal control review projects for a number of companies listed on the Stock Exchange. Besides, the engagement team of CT Partners includes members of the Hong Kong Institute of Certified Public Accountants, a Certified Internal Auditor, a member of the Society of Chinese Accountants & Auditors, a fellow member of the Associations of Chartered Certified Accountants, an associate member of the Association of International Accountants, a member of Certified General Accountants Association of British Columbia, and an associate of the Taxation Institute of Hong Kong and a Certified Tax Adviser (HK).

CT Partners performed the internal control evaluation in July to August 2015. In relation to the non-compliance incidents mentioned above, CT Partners has reviewed and provided recommendations to the Group's internal control designs for preventing the recurrence of the aforementioned non-compliance incidents. Key measures adopted by the Group pursuant to the recommendations of CT Partners are disclosed above.

In relation to other weaknesses in the Group's internal control system, CT Partners has completed the follow-up review in September 2015 and February 2016. As at the Latest Practicable Date, the Group has adopted all of the major internal control measures and has been rectifying the major weaknesses in its internal control system as recommended by CT Partners. Major internal control measures suggested by CT Partners and adopted by the Group are as follows:

- The Company has been updating its website and social media account on a timely basis. The Company has assigned responsible staff to monitor and keep record on the information that has been posted on the website and social media account.
- The Company has prepared a complaint hotline and comment cards for customers in all restaurants.
- The Company has arranged with a server provider to set up a server to backup all system data in all restaurants.
- The Company has set up whistleblowing policies which enable the internal staff, customers and external business partners to notify the management if there is any inappropriate action found.
- The Company has prepared a formal performance appraisal form for reviewing the staff performance and providing feedback to the staff for further improvement.

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- The Company has prepared a checklist for the content of the staff permanent file to ensure the completeness and accuracy of staff information.

Having considered that:

- (i) the findings (other than the past non-compliance incidents of the Group) identified by CT Partners during its evaluation of the internal control system of the Group in July to August 2015 are, in the opinion of CT Partners, not material in terms of the combined effect of likelihood and seriousness and therefore do not reflect negatively on the adequacy and effectiveness of the Group's internal control system in any material respect;
- (ii) based on the follow-up review completed by CT Partners in September 2015 and February 2016, CT Partners concluded that the Group had properly implemented the recommended internal control improvement measures;
- (iii) regarding the past non-compliance incidents of the Group, CT Partners has provided recommendations to the internal control measures for prevention of the recurrence of the non-compliance incidents (as mentioned in the paragraph headed "Internal control measures to prevent the recurrence of non-compliance incidents" above), which are fully adopted by the Group; and
- (iv) there has not been any recurrence of similar non-compliance incident after the implementation of the recommended internal control improvement measures up to the Latest Practicable Date.

CT Partners is of the view, and the Directors and the Sponsor concur, that there are no material deficiencies in the adequacy and effectiveness of the Group's internal control system.

### **Views of the Directors and the Sponsor**

Having considered that:

- (i) the aforesaid non-compliances were not particularly serious in nature given the facts that:
  - (a) the non-compliances with the Predecessor Companies Ordinance and the Companies Ordinance mainly involved inadvertent administrative mistakes, omissions or oversights in relation to the preparation and filing of the relevant documents required under the Predecessor Companies Ordinance and the Companies Ordinance, which, in the opinion of the Legal Counsel, are minor and technical in nature and the chance of prosecution is very low or relatively low;
  - (b) the non-compliance with the Employees' Compensation Ordinance relates to the Group's late reporting of certain employees' work injury cases to the

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Commissioner of Labour, which was not an intentional act to deprive of the relevant employees' compensations under the Employees' Compensation Ordinance but was due to the lack of timely and professional advice at the material time, and as advised by the Legal Counsel, the chance of prosecution is very low;

- (c) the non-compliance with the Buildings Ordinance relates to the Group's failure to comply with the relevant occupation permit which was just one-off and was due to inadvertent mistakes of the Group and the Group has already ceased such breach, and as advised by the Legal Counsel, the chance of prosecution is very low;
  - (d) the non-compliance with the Water Pollution Control Ordinance relates to the failure to apply for the necessary water pollution control licenses which was due to the Group's reliance on the then external license consultant and the Group has already made the necessary applications to apply for the required water pollution control licenses, and as advised by the Legal Counsel, the chance of prosecution is very low;
  - (e) the non-compliance with the Fire Services (Fire Hazard Abatement) Regulation relates to the failure to maintain means of escape in the Group's restaurants free from obstruction which has been settled and as advised by the Legal Counsel, the Group is no longer exposed to any risk; and
  - (f) the non-compliance with the Administrative Measures relates to the Group's failure to comply with the applicable laws and regulations in the PRC in relation to the Store-value Cards issued by the Shenzhen Restaurant due to the unawareness of the Group's staff in the Shenzhen Restaurant and the Group has completed all necessary actions to comply with such laws and regulations and as advised by the PRC Legal Adviser, the Shenzhen Restaurant will not receive any administrative penalty;
- (ii) having taken into account that:
- (a) pursuant to the Stock Exchange's guidance letter HKEx-GL63-13, systemic non-compliances generally refer to non-compliance incidents which reflect negatively on the listing applicant's or its directors' or senior management's ability or tendency to operate in a compliant manner;
  - (b) the underlying reasons for the Group's past non-compliances principally stem from its inadequate understanding of the requirements under the relevant laws and regulations, and did not involve any intentional misconduct, fraud, dishonesty or corruption on the part of the Directors and senior management;
  - (c) having regard to the nature of and the circumstances pertaining to the non-compliance incidents as discussed above, the non-compliances were not willful and there was no indication that the Directors and senior management had a willful tendency to operate the business in a non-compliant manner;

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- (d) after becoming aware of the non-compliances and after considering the advice of the Legal Counsel, the Directors have taken relevant remedial actions where necessary and appropriate; and
- (e) after becoming aware of the requirements under the relevant laws and regulations, the Directors and senior management have demonstrated their ability to adopt and implement enhanced internal control measures as set out above in order to prevent recurrence of similar non-compliances and to operate the business in a compliant manner going forward, and there have not been any recurrence of similar non-compliance incidents after the adoption and implementation of the enhanced internal control measures up to the Latest Practicable Date;

the Directors and the Sponsor consider that the non-compliances do not reflect in any material respect negatively on the ability and tendency of the Company and the Directors and senior management to operate in a compliant manner and therefore the Directors and the Sponsor consider that the non-compliances were not systemic non-compliances;

- (iii) having regard to the nature of and the circumstances pertaining to the non-compliance incidents as discussed above, the non-compliance incidents were not willful and did not involve any intentional misconduct, fraud, dishonesty or corruption on the part of the Directors;
- (iv) at the material time when the Group's non-compliance incidents took place, the Directors were not familiar with and were not made aware of the relevant law and regulations due to the absence of timely and professional advice at the material time and the Directors had no willful involvement in the non-compliance incidents;
- (v) although the lack of proper system and control to keep track of the compliance status with respect to the various matters was one of the underlying reasons for the Group's past non-compliances, during CT Partners' evaluation of the Group's internal control system in July to August 2015, CT Partners did not identify any findings of the highest grading of risk in terms of the combined effect of likelihood and seriousness in relation to the Group's internal control system that had been in place covering areas including but not limited to the Group's sales and receipts cycle, purchase and payment cycle, inventory control, branch management, financial control and management procedures, and other various control and monitoring procedures;
- (vi) after discovery of the non-compliance incidents, the Directors have perused (a) the legal opinions issued by the Legal Counsel concerning the non-compliance incidents with the aim of familiarizing themselves with the relevant laws and regulations; and (b) the internal control report prepared by CT Partners with the recommendations made by CT Partners to prevent recurrence of the non-compliance incidents;

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- (vii) the Company have adopted enhanced internal control measures as set out above pursuant to the recommendations of CT Partners in order to prevent recurrence of the non-compliance incidents, including, in particular, the specific internal control measures for addressing the underlying reasons for each of the non-compliance incidents as mentioned above;
- (viii) based on the follow-up review completed by CT Partners in September 2015 and February 2016, CT Partners concluded that the Group had properly implemented the enhanced internal control measures;
- (ix) up to the Latest Practicable Date, there has not been any recurrence of similar non-compliance incidents after the adoption and implementation of the enhanced internal control measures; and
- (x) the Directors have attended directors' training session conducted by the Group's legal advisers as to Hong Kong law on, among other matters, the responsibilities of a director of a company listed on the Stock Exchange including the requirements under the GEM Listing Rules,

the Directors and the Sponsor are satisfied that (a) the aforesaid non-compliances do not reflect a material defect in the character, integrity or competence of the Directors; (b) the Directors have the standard of competence commensurate with their positions as directors of a listed issuer under Rules 5.01 and 5.02 of the GEM Listing Rules; and (c) the aforesaid non-compliances do not affect the Group's suitability for [REDACTED] under Rule 11.06 of the GEM Listing Rules.