
RISK FACTORS

You should carefully consider all of the information set out in this document, including the risks and uncertainties described below. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and that a substantial part of our Group's operations are conducted in Hong Kong and the PRC, the legal and regulatory environment of which may differ from that prevailing in other countries. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks.

RISKS RELATING TO OUR BUSINESS

If our expansion plan proves to be unsuccessful, or if we fail to obtain sufficient funding for our expansion plans, our business and growth prospects may be adversely affected.

For the three years ending March 31, 2013, 2014, and 2015, respectively, we expect our Group will require approximately HK\$95.7 million, HK\$232.0 million and HK\$214.0 million in capital expenditures for our expansion plan in Hong Kong and the PRC. We account for our pre-operating expenses of our new restaurants, central kitchens and delivery centers and catering services as expenses in our consolidated income statements. Accordingly, in the event that our expansion plan proves to be unsuccessful, our overall cash flow position, as well as our profitability, may be materially and adversely affected. We believe that our current cash and cash equivalents, anticipated cash flow from operations and the proceeds from certain capital raising activities will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for at least the next 12 months from the date of this document. We may, however, require additional cash resources to finance our continued growth or other future developments, including any investments we may decide to pursue. The amount and timing of such additional financing needs will vary depending on the timing of our new restaurant openings, investments in new restaurants and the amount of cash flow from our operations. If our resources are insufficient to satisfy our cash requirements, we may seek additional financing by obtaining a credit facility. The sale of additional equity securities could result in dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that may, among other things, restrict our expansion plans and operations or our ability to pay dividends. If we fail to service the debt obligations or are unable to comply with any debt covenants, we could be in default under the relevant debt obligations and our liquidity and financial conditions may be materially and adversely affected.

Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, some of which are beyond our control, including general economic and capital market conditions, credit availability from banks or other lenders, investors' confidence in us, the performance of the restaurant industry in general, and our operating and financial performance in particular. We cannot assure you that future financing will be available in amounts or on terms acceptable to us, if at all. In the event that financing is not available or is not available on terms acceptable to us, our business, results of operations and growth prospects may be adversely affected.

Our planned expansion into new markets in the PRC presents risks.

We plan to open new restaurants in certain regions in the PRC where we have little or no operating experience, including Shanghai, Shenzhen and Guangzhou. For each of the three years ended March 31, 2010, 2011 and 2012 and the three months ended June 30, 2012, we owned and operated one, two, two and four restaurants in the PRC and revenue from our restaurant operations, revenues from our restaurants located in the PRC amounted to 8.0%, 9.6%, 10.6% and 14.5% of our total revenue during the three years ended March 31, 2010, 2011 and 2012 and the three months ended June 30, 2012, respectively. The markets in the PRC

RISK FACTORS

which we target may have different business environments, competitive conditions, consumer preferences and discretionary spending patterns from our existing markets. As a result, any new restaurants we open in those markets may be less successful than restaurants in our existing markets. Consumers in the new markets may not be familiar with our brand and we may need to build brand awareness in such markets through greater investments in advertising and promotional activities than we originally planned. We may find it more difficult in new markets to hire, train and retain qualified employees who share our business philosophy and culture. Restaurants opened in new markets may also have lower average sales or higher construction, occupancy or operating costs than restaurants in existing markets. In addition, we may have difficulty in finding reliable suppliers or distributors with adequate supplies of ingredients meeting our quality standards in the new markets. Sales at restaurants opened in new markets may take longer than expected to ramp up and reach, or may never reach, expected sales and profit levels, thereby affecting our overall profitability.

In addition, we cannot assure you that our menu and style of dining will suit the popular tastes and demands of customers in China. Although we develop some of the dishes at our restaurants in China locally to meet local demand and taste, we cannot assure you that we can correctly anticipate or understand customer preferences in China. If we are unable to identify customer preferences in China and develop and offer menu items accordingly, sales at our restaurants in China may be adversely affected.

Furthermore, we have managed to maximize the retail space in our existing restaurants in Hong Kong by relying on the provision of fully and partially prepared foods by our central kitchen. There is no assurance that we can replicate this model in the PRC due to a variety of factors, including the number of restaurants which can be opened within a reasonable distance, the scale of each restaurant and the availability of suitable production space for a central kitchen. Any inability to replicate or successfully adapt our business model to local conditions may affect the profitability of these restaurants. Any inability to execute our expansion plans for the PRC market could adversely affect our business, growth, financial condition and results of operations.

Our new multi-channel business strategies in Hong Kong, including establishment of delivery centers and expansion into catering services, may not achieve desirable results.

In respect of our operations in Hong Kong, we intend to broaden our customer base and penetrate further into the Hong Kong market by pursuing a multi-channel business strategy. As part of our multi-channel business strategy, we intend to establish delivery centers and expand into catering services. Pursuing any of these strategies involves inherent business risks, such as making incorrect judgments or assumptions as to customer acceptance of any of these strategies. We have limited experience in operating delivery centers on any significant scale. In addition, we have no prior experience in providing catering services. We commenced this new catering service under a new brand, “Supreme Catering”, in October 2012. For this new brand, we need to identify and respond to different competitive conditions, consumer preferences and discretionary spending patterns. In addition, we may need to make additional investments to build brand awareness among our target customers. There is no assurance that we will be successful in implementing any of these strategies. In the event that any of these strategies proves to be unsuccessful, our overall profitability may be materially and adversely affected.

RISK FACTORS

Our operations are susceptible to increases in purchase costs for food ingredients, which could adversely affect our margins and results of operations.

Our profitability depends significantly on our ability to anticipate and react to changes in purchase costs of food ingredients. Food costs, as represented by our cost of inventories sold, accounted for 30.4%, 30.6%, 31.0% and 30.9% of our revenues for each of the three years ended March 31, 2010, 2011 and 2012 and the three months ended June 30, 2012, respectively.

The availability (in terms of type, variety and quality) and prices of food supplies can fluctuate and be volatile and are subject to factors beyond our control, including seasonal fluctuations, climate conditions, natural disasters, general economic conditions, global demand, governmental regulations, exchange rates and availability, each of which may affect our food costs or cause a disruption in our supply. Our suppliers may also be affected by higher costs to produce the goods and services supplied to us, rising labor costs and other expenses that they pass through to their customers, which could result in higher costs for goods and services supplied to us.

We purchase a portion of our raw materials and food ingredients from our suppliers in the PRC and a portion of our raw materials and food ingredients from importers in Hong Kong who in turn source the raw material and food ingredients from various overseas countries, including Europe and the United States. Food prices worldwide have been generally increasing during the period consisting of the three years ended March 31, 2012 and the three months ended June 30, 2012. In addition, any appreciation of foreign currencies in these countries against the Hong Kong dollar will increase the price of our raw materials and food ingredients in Hong Kong dollars.

We do not enter into framework agreements with our suppliers. We currently do not enter into futures contracts or engage in other financial risk management strategies against potential price fluctuations in food costs. We may not be able to anticipate and react to changes in food costs through our purchasing practices, by changing menu offerings and menu price adjustments in the future, or we may be unwilling or unable to pass these cost increases onto our customers, the failure of any of which could materially and adversely affect our business and results of operations.

If our suppliers do not deliver food and other supplies at competitive prices or in a timely manner, we may experience supply shortages and increased food costs.

The ability to source quality food ingredients at competitive prices in a timely manner is crucial to our business. Our ability to maintain consistent quality and maintain our menu offerings throughout our restaurants depends in part upon our ability to acquire fresh food products and related supplies from reliable sources that meet our quality specifications and in sufficient quantities. However, we do not enter into framework agreements with our suppliers. The purchase prices with suppliers for our food ingredients and raw materials are typically set at a fixed price by way of purchase orders. For the three years ended March 31, 2010, 2011 and 2012 and the three months ended June 30, 2012, the total purchases from our five largest suppliers in aggregate accounted for 30.2%, 27.0%, 23.9% and 21.8%, respectively, and our purchases from our largest supplier accounted for 9.0%, 8.1%, 5.7% and 4.7%, respectively, of our total purchases. During the period consisting of the three years ended March 31, 2012 and the three months ended June 30, 2012, none of our key suppliers ceased or indicated that it would cease supply of food ingredients to us, and we did not experience any material delays or interruptions in securing the supply of food ingredients from our key suppliers. However, there can be no assurance that we will be able to maintain business relationships with our key suppliers.

RISK FACTORS

A disruption of our food supplies can occur for a variety of reasons, many of which are beyond our control, including unanticipated demand, adverse weather conditions, natural disasters, diseases, a supplier ceasing operations or unexpected production shortages. Moreover, there is no assurance that our current supplies may always be able to meet our stringent quality control requirements in the future. If any of our suppliers do not perform adequately or otherwise fail to distribute products or supplies to us in a timely manner, we cannot assure you that we will be able to find suitable replacement suppliers in a short period of time on acceptable terms, and our failure to do so could increase our food costs and could cause shortages of food and other supplies at our restaurants that may cause us to remove certain items from the menus of one or more restaurants. Any significant changes to our menus for a prolonged period of time could result in a significant reduction in revenue during the time affected by the shortage and thereafter as our guests may change their dining habits as a result.

As we lease all of the properties on which our restaurants operate, we are exposed to risks relating to the commercial real estate rental market, including unpredictable and potentially high occupancy costs.

We lease all the properties on which our restaurants operate. Accordingly, occupancy costs account for a significant portion of our operating expenses. For the three years ended March 31, 2010, 2011 and 2012 and the three months ended June 30, 2012, our property rentals and related expenses for our restaurants and central kitchen (excluding our headquarter) amounted to HK\$45.6 million, HK\$74.1 million, HK\$95.0 million and HK\$30.2 million, respectively, representing 10.4%, 12.4%, 12.4% and 13.5% of our revenue from restaurant operations during the respective periods. Our Directors believe that, generally, rental costs for premises that are suitable for restaurant businesses in Hong Kong will continue to increase. Our substantial operating lease obligations expose us to potentially significant risks, including increasing our vulnerability to adverse economic conditions, limiting our ability to obtain additional financing and reducing our cash available for other purposes.

We compete with other retailers and restaurants for quality sites in a highly competitive market for retail premises. If we cannot obtain desirable restaurant locations or secure renewal of existing leases on commercially reasonable terms, our business, results of operations and ability to implement our growth strategy will be adversely affected.

We compete with other retailers and restaurants for prime locations in highly competitive markets for retail premises. There is no assurance that we will be able to enter into new lease agreements for prime locations or renew existing lease agreements on commercially reasonable terms, if at all.

Our lease agreements for our restaurant sites typically have an initial term ranging from two to ten years and some contain an option for us to renew for an additional term. Many of our lease agreements provide that the rent will increase within the initial term or after the initial term at a fixed rate or at the then prevailing market rate. In addition, several of our leases require us to pay an additional contingent rent, determined as a percentage of sales, as specified by the terms of the applicable lease agreement. Where we do not have an option to renew a lease agreement, we must negotiate the terms of renewal with the lessor, which may insist on a significant modification to the terms and conditions of the lease agreement. If a lease agreement is renewed at a rate substantially higher than the existing rate or other existing favorable terms granted by the lessor, if any, are not extended, we must evaluate whether renewal on such modified terms is in our business interest. If we are unable to renew leases for our restaurant sites, we will have to close or relocate the relevant restaurant, which would eliminate the sales that the restaurant would have contributed to our revenues during the period of closure, and could subject us to construction and other costs and risks. In addition, the revenue and any profit generated at a relocated restaurant may be less than the revenue and profit previously

RISK FACTORS

generated at the closed restaurant. Therefore, any inability to obtain leases for desirable restaurant locations or renew existing leases on commercially terms could have a material adverse effect on our business and results of operations.

If the sites on which we choose to establish our restaurants do not meet our assumptions and expectations or the demographics or other characteristics of the area surrounding the sites we choose change in an adverse manner, we may be obligated to continue to pay rent even if we choose to cease operations at such sites.

There can be no assurance that the sites of our existing restaurants will meet our assumptions and expectations or that the neighbourhood characteristics or demographics of the areas surrounding our restaurant sites will not deteriorate or otherwise change in the future, resulting in reduced sales at these sites. For example, construction or renovation works in surrounding areas may adversely affect the accessibility of our restaurants or reduce the pedestrian or vehicle flow in the area, resulting in reduced guest traffic at our restaurants. In these circumstances, we may wish to relocate or cease operations. However, because most of our lease agreements are non-terminable, we would be obligated to continue to make rental payments for the duration of the lease at the relevant restaurants. In such circumstances, our business and results of operations may be materially and adversely affected.

Minimum wage requirements in Hong Kong may further increase and impact our staff costs in the future.

The salary level of employees in the restaurant industry in Hong Kong has been increasing in recent years. For the three years ended March 31, 2010, 2011 and 2012 and the three months ended June 30, 2012, our staff costs amounted to HK\$121.8 million, HK\$162.8 million, HK\$197.5 million and HK\$63.5 million, respectively, representing 27.7%, 27.2%, 25.9% and 28.4% of our revenue during the respective periods. Our operations in Hong Kong are required to comply with the statutory minimum wage requirements, which came into force on May 1, 2011. The initial statutory minimum wage rate is HK\$28 per hour. As at the Latest Practicable Date, the Hong Kong Minimum Wage Commission has conducted the first review of the statutory minimum wage rate and has proposed an increase of the statutory minimum wage rate from HK\$28 per hour to HK\$30 per hour. If accepted and implemented by the government of Hong Kong, the statutory minimum wage rate in Hong Kong will increase to HK\$30 per hour. Our staff costs may increase as a result of the proposed increase of the statutory minimum wage rate in Hong Kong. Increased statutory minimum wage rate may increase competition for qualified employees, which may indirectly result in further increase in the salaries of our employees. We may not be able to increase our prices enough to pass these increased staff costs onto our customers, in which case our business and results of operations would be materially and adversely affected.

We are required to comply with certain orders issued by the Building Authority and may be subject to additional fines and penalties due to non-compliance with the Buildings Ordinance.

We have received eight building orders issued by the Building Authority pursuant to section 24 of the Buildings Ordinance in relation to signboards erected on our restaurant premises (the "Building Orders"). According to the Building Orders, these signboards, each showing information relating to our restaurants such as our names and logo, were erected without having first obtained from the Building Authority the approval of building plans and commencement of such building works as required by section 14 of the Buildings Ordinance. Our Group was required to carry out rectification works in relation to these eight signboards in accordance with the plans approved by the Building Authority (the "Rectifying Works").

RISK FACTORS

Save as disclosed in the above paragraphs, there were no other outstanding building orders served on our Group during the period consisting of the three years ended March 31, 2012 and the three months ended June 30, 2012 and up to the Latest Practicable Date. More details in relation to the building orders are set out in the paragraph headed “Building Orders-related Non-compliance Matters” under the section headed “Business” of this document.

Pending finalization of the remedial actions by our Group in consultation with the Building Authority and the release of the building orders, our Group may nevertheless be subject to fixed and daily fines imposed by the Building Authority under the Building Ordinance and reimbursement of costs for any rectification work undertaken by the Building Authority and the directors and management of the relevant subsidiaries may be subject to imprisonment. Pursuant to section 40(1BA) of the Buildings Ordinance, our Group could be found guilty of an offense and be held liable on conviction: (a) for a fine of HK\$200,000 and imprisonment for one year; and (b) for a fine of HK\$20,000 for each day during which it is proved to the satisfaction of the court that the offense has continued should it, without reasonable excuse, fail to comply with the aforesaid building orders served on it.

If our Group is found guilty and liable on conviction, our Directors and/or other management found to be in actual control of its operations may be held liable. Our Directors are unable to ascertain the exact amount of fines that may be imposed on our Group as the amount of fine varies from case to case. If the fines are substantial or if any Director or management is liable to the criminal offense, the financial or operation of the Group may be adversely affected.

There can be no assurance that all of our restaurants will be deemed to have building works carried out with prior the approval and consent for the commencement of such building works from the Buildings Authority as required by section 14 of the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong). In the event that our Group is required to remove any unauthorized building works or there are other building order non-compliances that affect the Group’s operation, our Group will comply with such request and any loss of business due to the renovation may affect the Group’s profitability. Any suspension of business operations may have a material adverse effect on the Group’s performance. For further details in relation to the Building Orders, please see the section headed “Business — Building Order — related Non-compliance Matters”.

Our Directors are aware that there are a number of building notices and building orders issued under section 24 of the Buildings Ordinance against other third parties, including landlords of the premises of our restaurants, which are not members of our Group.

Where such building notices and/or building orders are served on the relevant landlord(s), under the tenancy agreement(s) entered into between our Group and the relevant landlord(s), our Group may be required to indemnify the relevant landlord(s) where he/she/it is being prosecuted, to the extent that the concerned building structures were erected on the relevant premises by us.

Our Directors confirm that amongst the building notices and building orders served on the relevant landlords in relation to the premises where our restaurants are located at, some of them are related to building structures erected by us. The concerned building structures are generally minor building works. As at the Latest Practicable Date, to the best of our Directors’ knowledge, none of the relevant landlords had effected the relevant provision in the tenancy agreement(s) to seek indemnity against our Group. In the event that the relevant landlords are being prosecuted for such building works and our Group is required to indemnify against any of the relevant landlord(s), our profit may be adversely affected.

RISK FACTORS

The Controlling Shareholders have entered into the Deed of Indemnity in favour of the Company to indemnify the Group from and against, among others, losses, liabilities, damages, costs, claim and expenses incurred by our Group in relation to the building orders served on our Group in relation to our signboards and other building orders and building notices served on third parties in relation to the premises where our restaurants are located at. Please refer to the section “Statutory and General Information” in Appendix IV to this document.

We have previous incidents of non-compliance with the Companies Ordinance.

Some of our subsidiaries incorporated in Hong Kong have on various occasions not fully complied with certain statutory requirements in the Companies Ordinance with respect to matters such as timely adoption of audited accounts. See “Business — Non-compliance of our Group during the period comprising the three years ended March 31 2012 at the three months ended June 30, 2012 — Accounts-related Non-compliance Matters”.

Our Controlling Shareholders have agreed to indemnify us in respect of any liability which might be payable by any member of our Group arising from any possible or alleged violation or non-compliance with any Hong Kong laws or regulations on all matters, including the relevant non-compliance with the Companies Ordinance, prior to the date on which the [●] becomes unconditional.

If the Hong Kong Companies Registry takes any action against the relevant subsidiaries in our Group, including the assessment of fines or other penalties, our reputation, cash flow and results of operation may be adversely affected.

Any significant liability claims or food contamination complaints from our customers could adversely affect our business and operations.

Our customers and restaurant guests may submit or file complaints or claims against us regarding our food products and services, including the food prepared and served in, and delivered outside, our restaurants.

Being in the food and beverage industry, we face an inherent risk of food contamination and liability claims. Our food quality depends partly on the quality of the food ingredients and raw materials provided by our suppliers and we may not be able to detect all defects in our supplies. In addition, for the year ended March 31, 2012, approximately 50% of the semi-processed or processed food ingredients used in our Tsui Wah restaurants were initially delivered to and handled by our central kitchen. Any food contamination occurring at our central kitchen or during the transportation from our central kitchen to our restaurants that we fail to detect or prevent could adversely affect the quality of the food served in our restaurants. Due to the scale of our operations, we also face the risk that certain of our employees may not adhere to our mandated procedures and requirements. Any failure to detect defective food supplies, or observe proper hygiene, cleanliness and other quality control requirements or standards in our operations could adversely affect the quality of the food we offer inside or outside our restaurants, which could lead to liability claims, complaints and related adverse publicity, reduced customer traffic at our restaurants, the imposition against us of penalties by relevant authorities and compensation awards by courts. During the period consisting of the three years ended March 31, 2012 and the three months ended June 30, 2012 and up to the Latest Practicable Date, we had three isolated incidents of non-compliance relating to food and health-related matters for which we were fined for an aggregate amount of approximately HK\$6,000. For further details of these incidents, see “Business — Non-compliance of our Group during the the period consisting of the three years ended March 31, 2012 and the three months ended



RISK FACTORS

June 30, 2012 — Food and Health-related Non-compliance Matters” of this document. We cannot assure you that we will not receive any food contamination claims in the future. Any such incidents could materially harm our reputation, results of operations and financial condition.

Any failure to maintain effective quality control systems of our restaurants could have a material adverse effect on our business and operations.

The quality of the food we serve is critical to our success. Maintaining consistent food quality depends significantly on the effectiveness of our quality control systems, which in turn depends on a number of factors, including the design of our Group’s quality control systems and our ability to ensure that our employees adhere to those quality control policies and guidelines. Our quality control systems consist of (i) supply chain quality control, (ii) central kitchen quality control, (iii) logistics quality control and (iv) restaurant quality control. For more details on our quality control systems, see section headed “Business — Quality Control”. However, there is no assurance that our quality control systems will prove to be effective. Any significant failure or deterioration of our Group’s quality control systems could have a material adverse effect on our reputation, results of operations and financial condition.

Our business depends significantly on the market recognition of our brands, and any damage to our brand could materially and adversely impact our business and results of operations.

We believe our success depends substantially on the popularity of our brand and our reputation for consistent, high-quality products. As at the Latest Practicable Date, we operate our restaurant business under our  翠華餐廳 “Tsui Wah (翠華)” brand. We have invested significant effort and financial resources to establish brand recognition. Our  翠華餐廳 “Tsui Wah (翠華)” brand has been awarded (i) the “2011–2012 China’s Top Ten Chain Restaurant Brand (2011–2012年度中國十大馳名餐飲連鎖品牌)” by the China Hotel Leader Summit Committee (中國飯店業年會組委會) and (ii) the permanent Honourable Gold Award of the “PRC Consumer’s Most Favorable Hong Kong Brand (全國消費者最喜愛《香港名牌》— 永久性榮譽金獎單位) in 2009”, by the China Enterprise Reputation and Credibility Association (Overseas) Limited (中華海外企業信譽協會), and has received other awards and recognitions. We believe that our continued success will depend in large part on our ability to protect and enhance the value of our brands. Any incident that erodes consumer trust in or affinity for our brands could significantly reduce their value. As we continue to grow in size, expand our food offerings and services and extend our geographic reach, maintaining quality and consistency may become more difficult and we cannot assure you that customer confidence in our brands will not diminish. If consumers perceive or experience a reduction in food quality, service, ambiance or believe in any way that we are failing to deliver a consistently positive experience, our brand value could suffer, which could have a material adverse effect on our business.

Our self-developed dishes may face competition from competitors’ imitation dishes.

Competition in the *Cha Chaan Teng* (茶餐廳) industry is intense. One way we compete is to regularly review and adjust our menu offerings and develop new dishes to cater to ever-evolving customer tastes. We constantly launch new or modified dishes in our restaurants, some of which we market as signature dishes. Given the flexibility in our menu offerings, we believe we often come up with innovative dishes ahead of our competitors. Our self-developed dishes are not protected by any registered intellectual property, nor is such practice customary in our industry. We are subject to the risk that our competitors may imitate or develop more popular versions of our self-developed dishes and offer them at highly competitive prices. Our sales and profitability may be adversely affected by these imitation products and price competition.

RISK FACTORS

Any failure or perceived failure to deal with customer complaints or adverse publicity involving our products or services could materially and adversely impact our business and results of operations.

A multi-location restaurant business such as ours can be adversely affected by negative publicity or news reports, whether accurate or not, regarding food quality issues, public health concerns, illness, safety, injury or government or industry findings concerning our restaurants, restaurants operated by other food service providers or others across the food industry supply chain. Any such negative publicity could materially harm our business and results of operations and result in damage to our brands.

During the period consisting of the three years ended March 31, 2012 and the three months ended June 30, 2012, we recorded in aggregate approximately 200 customer suggestions and complaints per year for each of the three years ended March 31, 2010, 2011 and 2012, respectively, and approximately 50 customer suggestions and complaints for the three months ended June 30, 2012, with respect to our restaurant operations in Hong Kong, the PRC and Macau, based on our internal records. The suggestions and complaints generally related to the taste and style of particular dishes and customer service quality of our restaurant staff. We are not aware of any customer complaint seeking material compensation that could have material adverse effect on our business and results of operations during the period consisting of the three years ended March 31, 2012 and the three months ended June 30, 2012 and up to the Latest Practicable Date. We prioritize customer satisfaction and have implemented procedures designed to try to reduce customer complaints to the extent reasonably possible. Upon receiving a complaint, we will immediately offer a remedial proposal and properly record the complaint. We review internal records of complaints on a regular basis, provide suitable employee training based on these records and consider ways to improve our operations. Nevertheless, we cannot assure you that we can successfully prevent all customer complaints in the future.

Significant numbers of complaints or claims against us, even if meritless or unsuccessful, could force us to divert management and other resources from other business concerns, which may adversely affect our business and operations. Adverse publicity resulting from such allegations, even if meritless or unsuccessful, could cause customers to lose confidence in us and our brands, which may adversely affect the business of the restaurants subject to such complaints and our restaurants under the same or related brand. As a result, we may experience significant declines in our revenues and customer traffic from which we may not be able to recover.

Because we generate a majority of our revenues in Hong Kong, we are susceptible to trends and developments in Hong Kong.

Revenue generated from our Hong Kong restaurants amounted to HK\$400.5 million, HK\$535.0 million, HK\$667.4 million and HK\$186.5 million for the three years ended March 31, 2010, 2011 and 2012 and the three months ended June 30, 2012, respectively, representing 91.0%, 89.5%, 87.5% and 83.4% of our total revenue, respectively. We anticipate that our restaurant business in Hong Kong will continue to be our core business following the completion of the [●]. If Hong Kong experiences any adverse economic conditions due to events beyond our control, such as a local economic downturn, natural disasters, contagious disease outbreaks or terrorist attacks, or if the local authorities adopt regulations that place additional restrictions or burdens on us or on our industry in general, our overall business and results of operations may be materially and adversely affected. In addition, we have limited experience in operating businesses in other places, and may have difficulties in relocating our business to other geographic markets. Therefore, if there is any deterioration in the economic, political and regulatory environment in Hong Kong, our business may be materially and adversely affected.

RISK FACTORS

Because we rely on our central kitchen to supply a majority of our semi-processed or processed food ingredients used in our restaurants, any disruption of operation at our central kitchen could adversely affect our business and operations.

For the year ended March 31, 2012, approximately 50% of the semi-processed or processed food ingredients used in our Tsui Wah restaurants were first processed at our central kitchen located in Hong Kong before delivery to our restaurants. Some of these semi-processed or processed food ingredients are food ingredients for our signature dishes. Any disruption of operations at our central kitchen, such as electricity or water suspensions, whether due to natural disasters or otherwise, may result in our failure to distribute food ingredients to our restaurants in a timely manner, or at all, which may cause our restaurants to suspend or remove popular items or signature dishes from their menus, whether temporarily or on a permanent basis. If we remove popular items or signature dishes from our restaurant offerings, we may experience a significant reduction in revenue and our brand value may suffer, resulting in a material adverse effect on our business and results of operations.

In respect of our Hong Kong operations, we intend to establish a second central kitchen in Hong Kong to support our planned expansion in Hong Kong. We anticipate our second central kitchen will be between 30,000 square feet and 40,000 square feet and will become operational in 2013. We are in the process of identifying a suitable location and property to establish our second central kitchen. In respect of our PRC operations, we expect our first central kitchen in Shanghai will become operational in the year ending March 31, 2014. Any failure or delay in locating suitable property for our new central kitchens, or any disruptions in the construction of our new central kitchens, could increase the burden on our existing central kitchen and delay our expansion plans, thereby adversely affecting our growth.

Our financial results depend on the success of our existing and new restaurants.

Our financial results depend on our ability to increase sales and efficiently manage costs in our existing and new restaurants. In particular, the success of our restaurants depends principally on our ability to increase guest traffic and the average spending per invoice. Significant factors that might adversely impact our guest traffic levels and the average spending per invoice include, without limitation:

- increased competition in the restaurant industry;
- changes in consumer preferences;
- declining economic conditions that may adversely affect discretionary consumer spending in the markets we serve;
- guest budgeting constraints and choosing not to order high margin items such as beverages;
- customer sensitivity to our menu price increases;
- our reputation and consumer perception of our brand and our offerings in terms of quality, price, value and service; and
- guest experiences from dining in our restaurants.

RISK FACTORS

The profitability of our restaurants is also subject to cost increases that are either wholly or partially beyond our control, including, without limitation:

- occupancy costs under leases for our existing and new restaurants;
- food and other raw material costs;
- labor costs;
- energy, water and other utility costs;
- insurance costs;
- information technology and other logistical costs;
- costs associated with any material interruptions in our supply chain; and
- compliance costs relating to any changes in government regulation.

The failure of our existing or new restaurants to perform as expected could have a significant negative impact on our financial condition and results of operations.

Our future growth depends on our ability to open and profitably operate new restaurants.

We operated 26 restaurants⁽¹⁾ as at the Latest Practicable Date. Our future growth depends on our ability to open and profitably operate new restaurants. We opened one, five and four⁽²⁾ new restaurants in each of the three years ended March 31, 2010, 2011 and 2012, respectively, and plan to open ten, 12 and 15 new restaurants in the years ending March 31, 2013, 2014 and 2015, respectively. The number and timing of new restaurants actually opened during any given period, and their associated contribution to our growth, are subject to a number of risks and uncertainties, including but not limited to our ability to:

- find quality locations and secure leases on commercially reasonable terms;
- secure the required government permits and approvals;
- obtain adequate financing for development and opening costs;
- efficiently manage the time and cost involved in the design, construction and pre-opening processes for each new restaurant;
- accurately estimate expected consumer demand in new locations and markets;
- secure adequate suppliers of food ingredients that meet our quality standards;
- hire, train and retain skilled management and other employees on commercially reasonable terms; and
- successfully promote our new restaurants and compete in the markets where our new restaurants are located.

⁽¹⁾ Includes one restaurant in Hong Kong and one restaurant in Macau owned by our Jointly-Controlled Entities.

⁽²⁾ Includes one restaurant in Macau owned by our Jointly-Controlled Entity.

RISK FACTORS

We may not be able to open our planned new restaurants on a timely basis, if at all, and if opened, these restaurants may not be operated profitably. We have experienced and may continue to experience delays in restaurant openings. Opening new restaurants may place substantial strain on the managerial, operational and financial resources of our Group. We may not be able to attract enough guests to our new restaurants because potential guests may be unaware of or unfamiliar with the new restaurants or the menus of our new restaurants might not appeal to them. If we are unable to overcome the costs associated with opening new restaurant locations and building a satisfactory new customer base for our new restaurants, the operating results generated at the new restaurants may not be comparable to the operating results generated at any of our existing restaurants. The new restaurants may even operate at a loss, which could have a significant adverse effect on our overall operating results.

Opening new restaurants in existing markets may negatively affect sales at our existing restaurants.

The consumer target area of our restaurants varies by location, depending on a number of factors such as population density, local retail and business attractions, area demographics and geography. As a result, the opening of new restaurants in or near markets in which we already have existing restaurants could adversely impact the sales and guest traffic of existing restaurants. Some of our customers may be diverted from our existing restaurants to our new restaurants, and vice versa.

We currently plan to open ten new restaurants in the year ending March 31, 2013 (including four restaurants already opened during the fiscal year as at the Latest Practicable Date), and 12 and 15 new restaurants in the two years ending March 31, 2015, respectively. Of these planned new restaurants, five, four and four are expected to be opened in Hong Kong in the three years ending March 31, 2013, 2014 and 2015, respectively, with the aim of increasing our penetration of the existing market in Hong Kong. We carefully consider any likely impact on our existing restaurants when we evaluate each new restaurant site and seek to balance any potential impact on our existing restaurants with the new restaurant's ability to attract more customers from competitors. We do not intend to open new restaurants that materially impact the sales or guest traffic of our existing restaurants. However, there can be no assurance that customer diversion among our existing and new restaurants will not occur or become more significant in the future as we continue to expand our operations, which could have a material adverse effect on sales at our existing restaurants and our overall profitability.

New restaurant openings could result in fluctuations in our financial performance.

Our operating results have been, and in the future may continue to be, significantly influenced by the timing of new restaurant openings (often affected by factors beyond our control), including initially lower sales and higher operating costs, as well as changes in our geographic distribution due to the opening of new restaurants. New restaurants also incur expenses before openings such as rental expenses. We opened 12 new restaurants⁽¹⁾ during the period consisting of the three years ended March 31, 2012 and the three months ended June 30, 2012. As at the Latest Practicable Date, nine of these 12 restaurants have achieved breakeven, which we consider to be the point at which the monthly revenue is at least equal to the monthly expenses⁽²⁾ of a restaurant. On average, these nine new restaurants⁽³⁾ require approximately one to two months to breakeven. The other three new restaurants have not yet

⁽¹⁾ Excludes one restaurant in Macau owned by one of our Jointly-Controlled Entities.

⁽²⁾ Monthly expenses include all cash and non-cash operating expenses, namely, cost of inventories sold, staff costs, depreciation, property rentals and related expenses, fuel and utility expenses, advertising and marketing expenses and other operating expenses.

⁽³⁾ Among these nine restaurants, one was opened during the year ended March 31, 2010, five were opened during the year ended March 31, 2011, one was opened during the year ended March 31, 2012 and two were opened during the three months ended June 30, 2012.

RISK FACTORS

achieved breakeven. As at the Latest Practicable Date, six of the 12 new restaurants opened during the period consisting of the three years ended March 31, 2012 and the three months ended June 30, 2012 have reached the investment payback point, which we consider the amount of time it takes for the accumulated net profit from a restaurant to cover the costs of opening and operating a restaurant, including incurred capital expenditures and ongoing cash and non-cash operating expenses. The average investment payback period for these six new restaurants opened during the period consisting of the three years ended March 31, 2012 and the three months ended June 30, 2012 that have reached such point⁽¹⁾ is approximately 12 months. The other six restaurants opened during the period consisting of the three years ended March 31, 2012 and the three months ended June 30, 2012 have not yet achieved investment payback. Our progress in opening new restaurants from period to period may also occur at an uneven rate. Accordingly, the number and timing of new restaurant openings has had, and may continue to have, a meaningful impact on our profitability. As a result, our results of operations may fluctuate significantly from period to period and comparison of different periods may not be meaningful. Our results for a given fiscal period are not necessarily indicative of results to be expected for any other fiscal period.

Our leased premises in the PRC are subject to certain specific risks.

As at the Latest Practicable Date, the lease agreements of all of our leased properties in the PRC had not been registered with the appropriate government authorities. Our PRC legal adviser has advised us that depending on the applicable PRC laws and regulations, the lessor, or both the lessor and lessee, are under an obligation to register and file an executed lease agreement with the appropriate land and real estate administration bureau. We have requested the lessors of the relevant properties to complete, or to cooperate with us to complete, the registration and filing procedures in a timely manner, but we are unable to control whether and when such lessors will do so. As at the Latest Practicable Date, the relevant lessors had not provided the relevant documents for registration purpose. We cannot assure you that our Group will not be subject to any penalty in relation to such failure to register the lease agreements with the relevant land and real estate administration bureau. As at the Latest Practicable Date, the operations of the restaurants located at the aforesaid properties had not been disrupted due to the non-registration of our lease agreements. However, we also cannot assure you that we will not encounter similar problems in the future with respect to restaurant premises in PRC.

As at the Latest Practicable Date, with respect to four of our leased properties in the PRC, the relevant lessors had not provided us with the relevant title ownership certificates or the land use right certificates, or both, evidencing their rights to lease the properties to us. As advised by our PRC legal adviser, if the lessors of the relevant leased properties do not have the requisite rights to lease out the relevant leased properties, the relevant lease agreements may be deemed invalid, and, as a result, we may be required to move our operations from the relevant leased properties and to relocate our restaurants. We cannot assure you that we will not be subject to business disruptions and losses in the future if we are required to move our operations from the relevant leased properties, and our business and results of operations could be adversely affected.

As at the Latest Practicable Date, two of our leased properties in the PRC is located in a temporary building. As advised by our PRC legal adviser, under PRC laws, the use of temporary buildings shall not exceed a term of two years. If an extension beyond the two years is desired, an application may be made prior to the expiration of the two-year period. Without an extension, temporary buildings may be demolished. At present, the temporary building has been used for longer than two years. No application for an extension has been applied for with the appropriate




⁽¹⁾ These six restaurants were opened during the two years ended March 31, 2010 and 2011.

RISK FACTORS

authorities. We cannot assure you that we will not be subject to any loss in the future if the temporary building is demolished, and our business and results of operations could be adversely affected.

The aggregate percentage of our Group’s revenue attributable to the relevant restaurants in the PRC amounted to 8%, 10%, 11% and 15% for the three years ended March 31, 2012 and the three months ended June 30, 2012, respectively and the aggregate percentage of our Group’s profit after tax attributable to these restaurants amounted to 6%, 12%, 10% and 14% for the three years ended March 31, 2012 and the three months ended June 30, 2012, respectively.

Our Macau operations subject us to certain specific risks.

We currently operate one restaurant in Macau located in the casino area within the premises of the Galaxy Macau Resort & Hotel under a joint venture arrangement with our joint venture partner. Under such arrangement, we are prohibited from opening another Hong Kong style café under the  翠華餐廳 “Tsui Wah (翠華)” brand in any other casino(s) or hotel(s) in Macau prior to May 2022. Other than casino(s) or hotel(s) in Macau, we are also generally prohibited to open another Hong Kong style café under the  翠華餐廳 “Tsui Wah (翠華)” brand in any other parts of Macau prior to November 2013. For the period between November 2013 and up to May 2022, prior written consent of the other joint venture party shall be obtained if another Hong Kong style café under the  翠華餐廳 “Tsui Wah (翠華)” brand is to be opened in any other parts of Macau. Currently, we do not have any expansion plans in Macau. Should our management decide to expand further in any other parts of Macau from November 2013 to May 2022, we cannot assure you that we will be able to obtain the prior written consent of the others joint venture party, without which such expansion plan may not be implemented during such time.

Our central kitchen in Hong Kong supplies certain semi-processed or processed food ingredients used in our Tsui Wah restaurant in Macau. Some of these semi-processed or processed food ingredients are food ingredients for our signature dishes. These food ingredients are transported from Hong Kong to Macau by third-party logistic providers by ships. In addition, all of these food ingredients are required to be cleared by the Macau customs which normally takes approximately one day. Any events, whether due to natural disasters or otherwise, which delays the delivery of food ingredients to our Macau restaurant, or any malfunctioning of refrigeration facilities or poor handling during transportation by our logistic providers, may result in failure to provide quality food and/or temporary suspensions of certain signature dishes in our Macau restaurant, thereby adversely affecting our brand and damaging our reputation.

Macau has a relatively limited labor market and our ability to seek employees from outside of Macau to staff our operations in Macau is restricted by labor quota restrictions imposed by the Macau government. While there is no legislation that specifically provides for a labor quota applicable to our operations in Macau, as advised by our Macau Counsel based on the existing practices of the Macau Labor Department (*Direcção dos Serviços dos Assuntos Laborais*) and Macau Human Resources Bureau (*Gabinete para os Recursos Humanos*), the minimum ratio of employees from Macau to employees from outside of Macau should be 1:1. We cannot assure you that we will be able to successfully compete for the limited supply of labor in Macau and to recruit and retain a sufficient number of staffs for our Macau operations.

One of the entrances of our Macau restaurant is located inside the gaming area of the Galaxy Macau Resort & Hotel. We have experienced incidents where we have to deal with inebriated customers and thefts relating to customer possessions. If we fail to deal with these or other similar incidents properly, our business operations in Macau and our brand and reputation could be adversely affected.

RISK FACTORS

Our non-Hong Kong operations subject us to additional risks and costs and may cause our profitability to decline.

Our future growth plans depend significantly on our ability to expand into markets outside of Hong Kong. Operating outside of our core Hong Kong market exposes us to a number of additional risks, including without limitation, the following:

- fluctuations in commodity prices, interest and foreign exchange rates and the effects of local governmental initiatives to manage local economic conditions;
- changing labor conditions and difficulty in staffing our international operations;
- changes in consumer preferences;
- legal and regulatory changes and the burdens and costs of our compliance with a variety of foreign laws; and
- increases in the taxes we are obligated to pay and other changes in applicable tax laws.

Any failure to address these risks may have a material adverse effect on our business, financial condition and results of operations.

If we are unable to manage our growth effectively, we may not be able to capitalize on new business opportunities and our business and financial results may be materially and adversely affected.

We have increased the number of our restaurants⁽¹⁾ from 14 as of March 31, 2010 to 26 as at the Latest Practicable Date and we plan to continue to expand our operations by entering into new markets and increasing penetration of existing markets. Our current expansion plans contemplate a more rapid pace of expansion than we have previously undergone. We also have limited experience in operating multiple restaurant formats concurrently. Our expansion may place substantial demands on our management and our operational, technological, financial and other resources. Our planned expansion will also place significant demands on us to maintain consistent food and service quality across a larger restaurant network and preserve our corporate culture across a larger and more diverse employee base to ensure that our brand does not suffer as a result of any deterioration, whether actual or perceived, in the quality of our food or service.

To manage and support our growth, we must improve our existing operational and administrative systems as well as our financial and management controls. Our continued growth also depends on our ability to recruit, train and retain additional qualified management personnel as well as other administrative, sales and marketing personnel, particularly as we expand into new markets. To accommodate our growth, we need to continue managing our relationships with our suppliers and customers. All of these endeavors will require substantial management attention and efforts and significant additional expenditures. We cannot assure you that we will be able to manage any future growth effectively and efficiently, and any failure to do so may materially and adversely affect our ability to capitalize on new business opportunities, which in turn may have a material adverse effect on our business and financial results.



⁽¹⁾ Includes one restaurant in Hong Kong and one restaurant in Macau owned by our Jointly-Controlled Entities.

RISK FACTORS

We may not be able to adequately protect our intellectual property, which, in turn, could harm the value of our brand and adversely affect our business.




We believe that the success of our business and our competitive position depend on our brand and customer awareness of our brand. Our ability to implement our business plan successfully also depends in part on our ability to further build brand recognition using our trademarks, proprietary know-how, recipes, trade secrets and other intellectual property, including our names and logos.

We use confidentiality and non-compete agreements with key management and operating personnel and other precautionary procedures to protect our proprietary know-how, recipes and trade secrets. However, we cannot assure you that our methods to protect the information are adequate and others could independently develop or otherwise obtain access to our proprietary know-how, concepts, recipes and trade secrets. As a result, the appeal of our restaurants could be reduced and our business and results of operations could be adversely affected.

If our efforts to maintain and protect our intellectual property are inadequate, or if any third party misappropriates, dilutes or infringes on our intellectual property, the value of our brands may be harmed, which could have a material adverse effect on our business and might prevent our brand from achieving or maintaining market acceptance. For example, we are aware of restaurants operating under the “Tsui Wah (翠華)” brand in certain regions in the PRC. We are advised by our PRC legal advisers that our  翠華餐廳 and  翠華集團 logos have been duly registered as trademarks with the SAIC in the PRC since August 2004 and February 2011, respectively. As advised by our PRC advisers, we may obtain administrative orders requiring infringing parties to cease their unauthorized use by instituting litigation, arbitration or other proceedings to enforce our intellectual property rights. We are evaluating our options and optimum strategies. Negative publicity or customer disputes and complaints regarding any infringing party’s unauthorized use of our or similar trademarks, brands and logos could dilute or tarnish our restaurants’ brand appeal, which could materially damage our sales figures, profitability and prospects even if we are able to successfully enforce our legal rights. We cannot assure you these infringements or any further infringements of our intellectual property rights will not have a material adverse effect on our brand, business and results of operations in the future.

Although we operate the restaurants owned by our Jointly-Controlled Entities, to comply with legal requirements, we license the right to use certain of our “Tsui Wah (翠華)”-related trademarks to our Jointly-Controlled Entities. If there is any improper use of the trademarks by those entities resulting in negative publicity, our image and reputation may be adversely affected.

We cannot assure you that the measures we have put in place to protect our intellectual property rights will be sufficient. Despite our efforts, we may not be able to prevent third parties from infringing upon our intellectual property rights, including our trademark, brand and logo. We may, from time to time, be required to institute litigation, arbitration or other proceedings to enforce our intellectual property rights, which would likely be time-consuming and expensive to resolve and would divert our management’s time and attention regardless of its outcome.

Up to the Latest Practicable Date, we have applied for registration of several trademarks, including  翠華, 翠華,  and an additional class for the  翠華餐廳 logo in the PRC. For details, please see section headed “Statutory and General Information — 2. Our material intellectual property rights” in Appendix IV to this document. We have been advised by our PRC legal advisers that under the PRC law, trademarks must be registered with the relevant government authority in the PRC so as to be protected by the relevant law. As at the Latest

RISK FACTORS

Practicable Date, no objections have been received from the relevant PRC authority or from any third parties with respect to such applications. We cannot guarantee you successful registration of these trademarks.

Negative publicity or customer disputes and complaints regarding any infringing parties' unauthorized use of our or similar trademarks, brands and logos could dilute or tarnish our restaurants' brand appeal, which could materially reduce our sales, profitability and prospects even if we are able to successfully enforce our rights. Even if the use by an infringing restaurant of identical or similar trademarks, brands and logos does not confuse customers, the distinctive nature of our restaurants' brand image could be blurred because our trademarks, brands and logos may lose the distinctive association in the customers' awareness with our restaurants, which in turn could materially reduce our sales, profitability and prospects. In addition, we could face increased difficulty and incur additional expenses during our future expansion because of the existence of infringing restaurants in regions of the PRC where we currently do not have operations but where we intend to expand our operations. Therefore, our failure to protect or safeguard our intellectual property rights could materially and adversely affect our business, financial condition and results of operations.

We require various approvals, licenses and permits to operate our business and any failure to obtain or renew any of these approvals, licenses and permits could materially and adversely affect our business and results of operations.

We are subject to various government regulations. In respect of our restaurants in Hong Kong, we are required to maintain three principal types of licenses for the operation of our restaurant business: (i) a food business license, including a restaurant license for operating a restaurant, a food factory license for a central kitchen and a bakery license for our bakery operation, which are required to be obtained commencing operations; (ii) a water pollution control license required to be obtained before any discharge of trade effluents into a communal sewer or communal drain in a water control zone commences; and (iii) a liquor license required to be obtained before commencing the sale of liquor on the relevant restaurant premises. The general restaurant license is typically granted for a period of one year and the water pollution control license is granted for a period of not less than two years, subject to continuous compliance with the relevant requirements in the relevant legislation and subsidiary legislation with respect to hygiene, food quality and environmental matters and upon payment of the respective license fees. New restaurants will be granted a provisional restaurant license which is valid for a period of up to six months to allow the restaurant operator to commence business operations pending the issue of a full restaurant license. A liquor license is usually granted for a period of one year or less, subject to the continuous compliance with the requirements under the relevant legislation and regulations.

In accordance with the laws and regulations of the PRC, we are required to maintain various approvals, licenses and permits in order to operate our restaurant business in the PRC. Each of our restaurants in the PRC is required to obtain the relevant liquor retail license, food service license and/or public assembly venue hygiene license. In addition, each of our restaurants in the PRC is required to obtain an environmental protection assessment and inspection approval, a fire safety design approval and a fire prevention inspection report. These approvals, licenses and permits are achieved upon satisfactory compliance with, amongst other things, the applicable food safety, hygiene, environmental protection, fire safety and wine laws and regulations. Most of these licenses are subject to examinations or verifications by relevant authorities and are valid only for a fixed period of time subject to renewal and accreditation.

RISK FACTORS

Complying with government regulations may require substantial expense, and any non-compliance may expose us to liabilities. In case of any non-compliance, we may have to incur significant expense and divert substantial management time to resolving any deficiencies. We may also experience adverse publicity arising from such non-compliance with government regulations that negatively impacts our brand.

We may experience difficulties or failures in obtaining the necessary approvals, licenses and permits for new restaurants. In addition, there can be no assurance that we will be able to renew or convert all of the approvals, licenses and permits required for our existing business operations upon expiration in a timely manner or at all. If we cannot obtain and maintain all licenses required by us to operate our business, planned new business operations/expansion may be delayed, our ongoing business could be interrupted and we may be subject to fines and penalties.

Restaurant and bakery licenses of some of our restaurants in Hong Kong are held by our Controlling Shareholders, Directors and employees.

Each of our restaurants in Hong Kong is required to obtain a restaurant license from the relevant regulatory authority. For details, see “Laws and Regulations — Regulatory Framework”. Historically before mid-2005, in respect of six of our earliest restaurants (the “Six Food Business License-related Restaurants”), we requested certain individuals to apply for the relevant food business licenses on behalf of our Group. For details, see “Business — Restaurant and/or bakery license(s) of six of our restaurants” in this document. The aggregate percentage of our Group’s revenue attributable to these Six Food Business License-related Restaurants amounted to 56%, 47%, 42% and 35% for the three years ended March 31, 2012 and the three months ended June 30, 2012, respectively. The aggregate percentage of our Group’s profit after tax attributable to these Six Food Business License-related Restaurant amounted to 56%, 45%, 41% and 39% for the three years ended March 31, 2012 and the three months ended June 30, 2012, respectively.

We have renewed the relevant restaurants licenses and/or bakery licenses every year since the relevant individuals first obtained such license(s). We became aware that the 2006 Policies were introduced while in the course of preparing for our [●]. For details of the 2006 Policies, see “Business — Restaurant and/or bakery license(s) of six of our restaurants” in this document.

As of the dates when the six restaurant licenses and two bakery licenses of the Six Food Business License-related Restaurants were granted to the relevant individuals, the premises of all these Six Food Business License-related Restaurants were in compliance with the then applicable policies on application, renewal and transfer of food business licenses (including restaurant and bakery licenses). Subsequently, we received building orders in relation to unauthorized signboards in respect of three of the Six Food Business License-related Restaurants, which we have already rectified. For details, see “Business — Hong Kong Regulatory Compliance — Building Orders-related Non-compliance Matters”. In light of the implementation of the 2006 Policies, there is no guarantee that all of these Six Food Business License-related Restaurants will be able to satisfy the conditions as set out in the 2006 Policies.

There is no guarantee that these license holders will not leave our Group or do such acts that may be non-compliant with the license requirements or detrimental to the subsequent license renewals or transfers. In the event that any such license holder leaves our Group or such licenses are otherwise revoked or are not renewed by the relevant authorities, our operation and profits may be adversely affected.

RISK FACTORS

Our success depends on our key personnel and our business may be harmed if we lose their services or they are not able to successfully manage our growing operations.

Our senior management team has a limited history of working together. Our future success depends on the ability of our senior management team to work together and successfully implement our growth strategy while maintaining the strength of our brand. Our future success also depends heavily upon the continuing services and performance of our key management personnel, in particular our executive Directors and Mr. Lock, our chief executive officer. We must continue to attract, retain and motivate a sufficient number of qualified management and operating personnel, including regional operational managers, restaurant general managers and executive chefs, to maintain consistency in the quality and atmosphere of our restaurants and meet our planned expansion requirements. If our senior management team fails to work together successfully, or if one or more of our senior managers is unable to effectively implement our business strategy, we may be unable to grow our business at the speed or in the manner in which we expect. Competition for experienced management and operating personnel in the restaurant industry is intense, and the pool of qualified candidates is limited. We may not be able to retain the services of our key management and operating personnel or attract and retain high-quality senior executives or key personnel in the future.

If one or more of our key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and our business may be disrupted and our results of operations may be materially and adversely affected. In addition, if any member of our senior management team or any of our other key personnel joins a competitor or forms a competing business, we may lose business secrets and know-how as a result. Any failure to attract, retain and motivate these key personnel may harm our reputation and result in a loss of business.

We may be unable to detect, deter and prevent all instances of fraud or other misconduct committed by our employees, customers or other third parties.

As we operate in the restaurant industry, we usually receive and handle large amounts of cash in our daily operations. All purchases of raw materials and food ingredients of our restaurants are made through our purchasing department. We are not aware of any instances of fraud, theft and other misconduct involving employees, customers and other third parties that had any material adverse impact on our business and results of operations during the period consisting of the three years ended March 31, 2012 and the three months ended June 30, 2012 and up to the Latest Practicable Date. However, we cannot assure you that there will not be any such instances in future. We may be unable to prevent, detect or deter all instances of misconduct. Any misconduct committed against our interests, which may include past acts that have gone undetected or future acts, could subject us to financial losses, harm our reputation and may have a material adverse effect on our business and results of operations.

Information technology system failures or breaches of our network security could interrupt our operations and adversely affect our business.

We rely on our computer systems and network infrastructure across our operations to monitor the daily operations of our restaurants and food production and to collect accurate up-to-date financial and operating data for business analysis. Any damage or failure of our computer systems or network infrastructure that causes an interruption in our operations could have a material adverse effect on our business and results of operations.

We also receive and maintain certain personal information about our guests when accepting credit cards or smart cards for payment. If our network security is compromised and such information is stolen or obtained by unauthorized persons or used inappropriately, we may

RISK FACTORS

become subject to litigation or other proceedings brought by cardholders and financial institutions that issue cards. Any such proceedings could distract our management from running our business and cause us to incur significant unplanned losses and expenses. Consumer perception of our brand could also be negatively affected by these events, which could further adversely affect our business and results of operations.

Events that disrupt our operations, such as fires, floods, or other natural or man-made disasters, may materially and adversely affect our business operations.

Our operations are vulnerable to interruption by fires, floods, typhoons, power failures and power shortages, hardware and software failures, computer viruses, terrorist attacks and other events beyond our control. Our business is also dependent on prompt delivery and transportation of our raw materials and food ingredients. Certain events, such as adverse weather conditions, natural disasters, severe traffic accidents and delays and labor strikes, could also lead to delayed or lost deliveries of food supplies to our central kitchen and our restaurants which may result in the loss of revenue or customer claims. Perishable food ingredients, such as fresh, chilled or frozen food ingredients, may deteriorate due to delivery delays, malfunctioning of refrigeration facilities or poor handling during transportation by our suppliers or our logistics partners. This may result in our failure to provide quality food and services to our customers, thereby adversely affecting our business and damaging our reputation. Fires, floods, earthquakes and terrorist attacks may lead to evacuations and other disruptions in our operations, which may also prevent us from providing quality food and service to customers for an indefinite period of time, thereby affecting our business and damaging our reputation. Any such event could materially and adversely affect our business operations and results of operations.

Our insurance policies may not provide adequate coverage for all claims associated with our business operations.

As of the date of this document, we have obtained insurance policies that we believe are customary for businesses of our size and type and in line with the standard commercial practice in the jurisdictions where we have operations. For more details on our insurance policies, see the section headed "Business — Insurance". However, there are types of losses we may incur that cannot be insured against or that we believe are not commercially reasonable to insure, such as loss of reputation. If we were held liable for uninsured losses or amounts and claims for insured losses exceeding the limits of our insurance coverage, our business and results of operations may be materially and adversely affected.

Our business could be adversely affected by difficulties in employee recruiting and retention.

We believe hiring, motivating and retaining qualified employees are a critical part of our success as a restaurant operator. Our success depends in part upon our ability to attract, retain and motivate a sufficient number of qualified employees, including restaurant staff, cooks, and kitchen assistants. As at June 30, 2012, we employed 2,176 employees (excluding Directors), 88 of whom were headquarters personnel and 2,088 of whom were restaurant and central kitchen staff. Highly service-oriented and qualified individuals are in short supply and competition for these employees is intense.

We are developing and implementing a number of employee recruiting and retention initiatives in an effort to attract, retain and motivate a sufficient number of qualified employees for our business operation and planned expansion. See the section headed "Business — Employees — Recruiting" and "Business — Employees — Employee Retention". If we cannot successfully implement all or any of these initiatives or, if implemented, these initiatives do not

RISK FACTORS

achieve the intended benefits generally or within our desired time frame, we may not be able to successfully recruit, motivate and retain a sufficient number of employees with necessary qualifications at commercially reasonable costs, or at all. Our failure to have and retain enough qualified employees could delay planned new restaurant openings or result in higher employee turnover, either of which could have a material adverse effect on our business and results of operations. In addition, competition for qualified employees could also require us to pay higher wages, which could result in higher labor costs.

Our results of operations may fluctuate significantly from period to period due to seasonality and other factors.

Our overall results of operations may fluctuate significantly from period to period because of various factors, including the timing of new restaurant openings and the incurrence of associated pre-opening costs and expenses, operating costs for our newly opened restaurants, any losses associated with our restaurant closings and seasonal fluctuations that may vary depending upon the region in which a particular restaurant is located. During the period consisting of the three years ended March 31, 2012 and the three months ended June 30, 2012, we generally derived a higher amount of revenue during the summer seasons and certain holiday periods, such as the Chinese New Year holiday and Christmas holiday. As a result of the above factors, our results of operations may fluctuate significantly from period to period and a comparison of different periods may not be meaningful. Our results for a given fiscal period are not necessarily indicative of results to be expected for any other fiscal period.

Our historical financial and operating results may not be indicative of future performance, and we may not be able to achieve and sustain the historical level of revenue and profitability.

Our historical results may not be indicative of our future performance. Our financial and operating results may not meet the expectations of public market analysts or investors, which could cause the future price of our Shares to decline. Our revenues, expenses and operating results may vary from period to period in response to a variety of factors beyond our control, including general economic conditions, special events, regulations or actions pertaining to restaurants based in Hong Kong and the PRC and our ability to control costs and operating expenses. You should not rely on our historical results to predict the future performance of our Shares. For more details, please see the section headed “Financial Information — Factors Affecting Results of Operations and Financial Condition — Average Number of Invoices Per Table Per Day and Average Spending Per Invoice”.

Our historical dividends may not be indicative of our future dividends.

We declared dividends of HK\$5.0 million, HK\$12.1 million, HK\$15.3 million and HK\$117.9 million for the three years ended March 31, 2010, 2011 and 2012 and the three months ended June 30, 2012, respectively. We declared a one-off and non-recurring dividend to the existing Shareholders in the amount of approximately HK\$53.5 million in October 2012, all of which is expected to be paid by December 2012. We cannot assure you that we will declare or pay dividends in the future, and you should be aware that the amount of dividends that were declared and paid in the past should not be used as a reference or basis upon which future dividends will be determined. The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors deem relevant.

RISK FACTORS

RISKS RELATING TO OUR INDUSTRY

We face risks related to instances of food-borne illnesses, health epidemics and other outbreaks.

The restaurant industry is susceptible to food-borne illnesses, health epidemics and other outbreaks. Furthermore, our reliance on third-party food suppliers increases the risk that food-borne illness incidents could be caused by third-party food suppliers outside of our control and could affect multiple restaurants in our Group. New illnesses resistant to any precautions currently in place may develop in the future, or diseases with long incubation periods could arise, such as mad-cow disease, that could give rise to claims or allegations on a retroactive basis. Reports in the media of instances of food-borne illnesses could, if highly publicized, negatively affect our industry overall and us in particular, impacting our restaurant sales, forcing the closure of some of our restaurants and conceivably having significant impact on our results of operations. This risk exists even if it were later determined that the illness in fact was not caused by our restaurants. Furthermore, other illnesses, such as hand, foot and mouth disease, could adversely affect the supply of some of our important food ingredients and significantly increase our costs.

We also face risks related to health epidemics. Past occurrences of epidemics or pandemics, depending on their scale of occurrence, have caused different degrees of damage to the economy in Hong Kong. For example, in 2003, certain Asia countries and regions, including the PRC, Hong Kong and Taiwan, encountered an outbreak of Severe Acute Respiratory Syndrome, or SARS, a highly contagious form of atypical pneumonia. A recurrence of SARS or an outbreak of any other epidemics or pandemics, including influenza A (H1N1) and avian flu (H5N1), in the areas where we have restaurants may result in quarantines, temporary closures of our restaurants, travel restrictions or the sickness or death of key personnel and our guests. Any of the above may cause material decreases in guest traffic and disruptions to our operations, which in turn may materially and adversely affect our business and results of operations.

The restaurant business may be subject to increasingly stringent licensing requirements, environmental protection regulations and hygiene standards, which can increase our operating costs.

We are required to obtain a number of licenses and permits for our restaurant operations, including, among others, general restaurant licenses, water pollution control licenses, liquor licenses, hygiene permits, polluting materials discharge permits and fire protection approvals. We are also required to comply with environmental protection regulations. We cannot assure you that the licensing requirements and environmental protection regulations for our restaurant operations in Hong Kong, the PRC and elsewhere will not become more stringent in the future. Any failure to comply with existing regulations, or future legislative changes, could require our Group to incur significant compliance costs or expenses or result in the assessment of damages, imposition of fines against us or suspensions of some or all of our business, which could materially and adversely affect our financial condition and results of operations.

Macro-economic factors have had and may continue to have a material adverse effect upon our business, financial condition and results of operations.

The restaurant industry is affected by macro-economic factors, including changes in international, national, regional and local economic conditions, employment levels and consumer spending patterns. In particular, our Group's core business are operating restaurants in Hong Kong and accordingly, our results of operations is closely affected by the macro-economic conditions in Hong Kong. Any deterioration of the Hong Kong economy, decrease in disposable

RISK FACTORS

consumer income, fear of a recession and decreases in consumer confidence may lead to a reduction of guest traffic and average spending per invoice at our restaurants, which could materially and adversely affect our financial condition and results of operations.

Moreover, the occurrence of a sovereign debt crisis, banking crisis or other disruptions in the global financial markets that could impact the availability of credit generally may have a material and adverse impact on financings available to us. Renewed turmoil affecting the financial markets, banking systems or currency exchange rates may significantly restrict our ability to obtain financing from the capital markets or from financial institutions on commercially reasonable terms, or at all, which could materially and adversely affect our business, financial condition and results of operations.

Intense competition in the restaurant industry could prevent us from increasing or sustaining our revenue and profitability.

The restaurant industry is intensely competitive with respect to, among other things, food quality and consistency, taste, price-value relationships, ambiance, service, location, supply of quality food ingredients and employees. Key competitive factors in the industry include type of cuisine, food choice, food quality and consistency, quality of service, price, dining experience, restaurant location and the ambiance of the facilities. We face significant competition at each of our locations from a variety of restaurants in various market segments, including locally-owned restaurants and regional and international chains. Our competitors also offer dine-in, take-away and delivery services. There are a number of well-established competitors with substantially greater financial, marketing, personnel and other resources than ours, and many of our competitors are well established in the markets where we have restaurants, or in which we intend to open new restaurants. Additionally, other companies may develop new restaurants that operate with similar concepts and target our customers resulting in increased competition.

Any inability to successfully compete with the other restaurants in our markets may prevent us from increasing or sustaining our revenues and profitability and lose market share, which could have a material adverse effect on our business, financial condition, results of operations or cash flows. We may also need to modify or refine elements of our restaurant system to evolve our concepts in order to compete with popular new restaurant styles or concepts that develop from time to time. We cannot ensure that we will be successful in implementing these modifications or that these modifications will not reduce our profitability.

RISKS RELATING TO THE PRC

We face uncertainty with respect to the indirect transfers of equity interests in our PRC resident enterprises through transfers made by our non-PRC holding companies.

The State Administration of Taxation (SAT) issued the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知) ([2009] 698), (“**Circular 698**”), on December 10, 2009, which was made retrospectively effective from 1 January 2008. Pursuant to Circular 698 and SAT announcement [2011] 24, except for the purchase and sale of equity in a PRC resident enterprise through a public securities market, where a non-PRC resident enterprise indirectly transfers its equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company (an “**Indirect Transfer**”), and such overseas holding company’s jurisdiction: (i) has either an effective tax rate of less than 12.5% or (ii) does not tax on such transaction, the non-PRC resident enterprise shall report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the non-PRC holding company if it lacks a reasonable commercial purpose and is established for the

RISK FACTORS

purpose of avoiding PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at 10%. Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

In connection with our Reorganization, we conducted transactions that may be deemed to be Indirect Transfers of equity interests in our PRC subsidiaries. If the relevant PRC tax authorities hold that our overseas holding company's existence does not have commercial purpose and the Indirect Transfer was conducted for the purpose of avoiding PRC tax, or any such Indirect Transfer is otherwise taxable under Circular 698, we may be required to pay PRC withholding tax for such Indirect Transfer. However, since the implementations of Circular 698 vary across different tax authorities, it remains unclear how the PRC tax authorities will examine the commercial purpose of non-PRC holding companies and Indirect Transfers generally. Notwithstanding this, according to Circular 698, the reporting and tax obligation, if any, remains with the transferor, i.e. Cui Fa, Ample Favour, Victor Leap and Macca Investment in our case.

Adverse changes in economic and political policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could materially and adversely affect our business and results of operations.

As at the Latest Practicable Date, we operated four restaurants in the PRC. We plan to open five (including two already opened during the fiscal year as at the Latest Practicable Date), eight and 11 new restaurants in the PRC in each of the three years ending March 31, 2013, 2014 and 2015, respectively. In addition, the number of tourists from the PRC visiting Hong Kong in recent years has increased substantially. Accordingly, our business, financial condition, results of operations and prospects could be affected by economic, political and legal developments in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including the degree of government involvement, the level of development, the growth rate, the control of foreign exchange, access to financing, and the allocation of resources. Restaurant dining is discretionary for customers and tends to be higher during periods in which favorable economic conditions prevail. Customers' tendency to become more cost-conscious as a result of an economic slowdown or decreases in disposable income may reduce our customer traffic or average revenue per customer, which may adversely affect our revenues.

While the Chinese economy has experienced significant growth in the past 30 years, growth has been uneven geographically, among various sectors of the economy and during different periods. We cannot assure you that the Chinese economy will continue to grow, or that if there is growth, such growth will be steady and uniform, or that if there is a slowdown, such slowdown will not have a negative effect on our business. For example, due in part to the impact of the global crisis in financial services and credit markets and other factors, China's year-on-year real GDP growth rate decreased to 6.8% in the fourth quarter of 2008, down from the figure of 11.9% reached in the second quarter of 2007. As a result, beginning in September 2008, among other measures, the PRC government began to loosen macroeconomic measures and monetary policies by reducing interest rates and decreasing the statutory reserve rates for banks. In addition, in November 2008, the PRC government announced an economic stimulus package in the amount of RMB4.0 trillion. Furthermore, the PRC government has increased its deposit reserve ratio six times within 2010, in each case by 0.5%, to control the growth of the PRC economy. We cannot assure you that the various macroeconomic measures, monetary policies and the economic stimulus package adopted by the PRC government to guide economic growth and the allocation of resources will be effective in sustaining the fast growth rate of the

RISK FACTORS

Chinese economy. In addition, such measures, even if they benefit the overall Chinese economy in the long-term, may adversely affect us if they reduce the disposable income of our customers or dampen their willingness to dine at restaurants.

Uncertainties with respect to the PRC legal system could materially and adversely affect us.

Our restaurant business in the PRC is conducted through our PRC subsidiaries. Thus, our operations in China are governed by PRC laws and regulations. Our PRC subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is based on written statutes and regulations. Prior court decisions may be cited for reference but have limited precedential value.

Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because published court decisions are limited in number and are nonbinding, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may be subject to fines and other penalties applied retroactively for violations of policies and rules enacted in the future based on acts that are currently permissible. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China against us or our management named in the document.

We are a company incorporated under the laws of the Cayman Islands. During the period consisting of the three years ended March 31, 2012 and the three months ended June 30, 2012, a majority of our businesses, assets and operations were located in Hong Kong. A substantial majority of our Directors and executive officers reside in Hong Kong. As at the Latest Practicable Date, we operated 21 restaurants in Hong Kong, four restaurants in China and one restaurant in Macau. Hong Kong has no arrangement with the United States for reciprocal enforcement of judgments. In addition, China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan and many other countries. As a result, recognition and enforcement in Hong Kong or the PRC of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter not subject to binding arbitration awards may be difficult or impossible.

In addition, since we are incorporated under the laws of the Cayman Islands and our corporate affairs are governed by the laws of the Cayman Islands, it may not be possible for you to bring an action against us or against our Directors or officers based upon Hong Kong laws or PRC laws in the event that you believe that your rights as a shareholder have been infringed.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive our revenues from our PRC restaurant operations in RMB. Shortages in the availability of foreign

RISK FACTORS

currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also, at its discretion, restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our Shares.

Fluctuations in exchange rates may result in foreign currency exchange losses and may have a material adverse effect on your investment.

The change in value of the Renminbi against the Hong Kong dollar, U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China’s political and economic conditions. Since 1994, the conversion of Renminbi into other currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People’s Bank of China, which are set daily based on the previous business day’s inter-bank foreign exchange market rates and current exchange rates on the world financial markets. On July 21, 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand and referenced to a basket of currencies. Since the adoption of this new policy, while the value of the Renminbi against the U.S. dollar has fluctuated daily, the overall value has appreciated against the U.S. dollar. The PRC government has since made and may in the future make further adjustments to the exchange rate system.

In respect of our restaurants in the PRC, a majority of our revenues and costs are denominated in RMB. We also partially rely on dividends and other fees paid to our Company by our wholly-owned subsidiaries in China. Any significant revaluation of the RMB may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our Shares in Hong Kong dollars. For example, any appreciation of the Renminbi against the Hong Kong or U.S. dollar or any other currencies may result in the decrease in the Renminbi-equivalent value of the [●] from this [●] and our foreign currency-denominated assets. Conversely, any devaluation of the Renminbi may adversely affect the value of, and any dividends payable on, our ordinary shares in foreign currency terms.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the [●] of the [●] to make loans or additional capital contributions to our PRC operating subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

As an offshore holding company of our PRC operating subsidiaries, we may make loans, additional capital contributions to our PRC subsidiaries or a combination thereof. Any loans to our PRC subsidiaries are subject to PRC regulations and approvals. For example, loans by us to our wholly-owned subsidiaries in China, each of which is a foreign-invested enterprise, to finance their activities cannot exceed statutory limits and must be registered with SAFE or its local counterpart.

RISK FACTORS

In addition, any capital contributions to our PRC wholly-owned subsidiaries must be approved by the Ministry of Commerce or its local counterpart. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our subsidiaries. If we fail to receive such registrations or approvals, our ability to use the [●] of this [●] and to capitalize our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We rely on dividends and other distributions paid by our wholly-owned operating subsidiaries in China to fund any cash and financing requirements we may have, and any limitation on the ability of our operating subsidiaries to pay dividends to us could have a material adverse effect on our ability to borrow money or pay dividends to holders of our Shares.

We are a holding company and conduct substantially all of our business through our operating subsidiaries. We partially rely on dividends and other payments from our wholly owned operating subsidiaries in China for our cash needs, including funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. If our Chinese subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to make payments or distributions to us. Furthermore, relevant Chinese laws and regulations permit payments of dividends by Chinese subsidiaries only out of their retained earnings, if any, as determined in accordance with Chinese accounting standards and regulations.

Under Chinese laws and regulations, each of our Chinese subsidiaries is required to set aside a portion of its net income each year based on PRC accounting standards to fund a statutory surplus reserve, until the accumulated amount of such reserve has exceeded 50% of its registered capital. The statutory surplus reserve amounted to RMB2,346,000 as of March 31, 2012. This reserve is not distributable as dividends except in the event of liquidation of these subsidiaries. As a result, our Chinese subsidiaries are restricted in their ability to transfer a portion of their net assets to us or any of our other subsidiaries in the form of dividends, loans or advances. Limitations on the ability of our Chinese subsidiaries to pay dividends to us or any of our other subsidiaries could materially and adversely limit our ability to borrow money outside of China or pay dividends to holders of our Shares. Also see the section headed “— Risks Relating to the PRC — The dividends we receive from our Chinese subsidiaries and our global income may be subject to Chinese tax under the Enterprise Income Tax Law (promulgated by the National People’s Congress on March 16, 2007 and became effective on January 1, 2008) (the “PRC EIT Law”), which would have a material adverse effect on our results of operations; our non-PRC Shareholders will be subject to a Chinese withholding tax upon the dividends payable by us and gains on the sale of Shares, if we are classified as a Chinese “resident enterprise”.

The dividends we receive from our Chinese subsidiaries and our global income may be subject to Chinese tax under the PRC EIT Law, which would have a material adverse effect on our results of operations; our non-PRC Shareholders will be subject to a Chinese withholding tax upon the dividends payable by us and gains on the sale of Shares, if we are classified as a Chinese “resident enterprise.”

Under the PRC EIT Law, dividends, interests, rent, royalties and gains on transfers of property payable by a foreign-invested enterprise in China to its foreign investor who is a non-resident enterprise will be subject to a 10% withholding tax, unless such non-resident enterprise’s jurisdiction of incorporation has a tax treaty with China that provides for a reduced rate of withholding tax. Under the arrangement for avoidance of double taxation between China

RISK FACTORS

and Hong Kong, the effective withholding tax for dividends applicable to a Hong Kong non-resident company is currently 5% if it directly owns no less than a 25% stake in the Chinese foreign-invested enterprise.

Under the PRC EIT Law, an enterprise established outside China with its “de facto management body” within China is considered a “resident enterprise” in China and is subject to the Chinese enterprise income tax at the rate of 25% on its worldwide income. The PRC EIT Law and its implementation rules are relatively new and contain ambiguous language, especially relating to the identification of PRC-sourced income. We cannot assure you that our Company will not be deemed to be a PRC resident enterprise under the PRC EIT Law and be subject to the PRC enterprise income tax at the rate of 25% on our worldwide income. If the Chinese tax authorities subsequently determine that our Company should be classified as a resident enterprise, non-PRC Shareholders will be subject to a 10% withholding tax upon dividends payable by us and gains on the sale of Shares under the PRC EIT Law. Any such tax may reduce the returns on your investment in our Shares.