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U BANQUET GROUP HOLDING LIMITED

饗宴集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1483)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

RESULTS

The board of Directors is pleased to announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2015 together with the comparative figures for the immediately preceding year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

		Year ended 31 December	
		2015	2014
	Note	HK\$'000	HK\$'000
Revenue	4	401,071	398,068
Other income	4	1,472	1,773
Cost of revenue	5	(102,400)	(93,521)
Employee benefit expenses		(112,111)	(99,982)
Depreciation		(15,921)	(16,118)
Operating lease payments		(69,058)	(62,211)
Utilities expenses		(33,860)	(33,679)
Other expenses	6	(73,358)	(67,103)
Fair value loss of investment properties		(1,500)	—

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

For the year ended 31 December 2015

		Year ended 31 December	
		2015	2014
	<i>Note</i>	HK\$'000	HK\$'000
Operating (loss)/profit		(5,665)	27,227
Finance income		654	682
Finance costs		(762)	(121)
Finance (cost)/income — net	7	(108)	561
(Loss)/profit before income tax		(5,773)	27,788
Income tax expense	8	(205)	(5,036)
(Loss)/profit and total comprehensive income for the year		(5,978)	22,752
(Loss)/profit and total comprehensive income attributable to:			
Owners of the Company		(5,978)	21,429
Non-controlling interests		—	1,323
		(5,978)	22,752
Basic (loss)/earnings per share	9	(1 cent)	5 cents
Diluted (loss)/earnings per share	9	N/A	5 cents

CONSOLIDATED BALANCE SHEET

As at 31 December 2015

		As at 31 December	
		2015	2014
	Note	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		47,207	57,856
Investment properties	11	24,000	25,500
Goodwill		18,576	18,576
Rental deposits		16,387	10,191
Prepayment for consultancy services		7,372	11,162
Deferred income tax assets		4,999	4,150
		<u>118,541</u>	<u>127,435</u>
Current assets			
Trade receivables	12	1,918	2,568
Deposits, prepayments and other receivable		25,300	25,530
Current income tax recoverable		3,849	—
Cash and cash equivalents		29,820	38,370
		<u>60,887</u>	<u>66,468</u>
Total assets		<u>179,428</u>	<u>193,903</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	13	4,650	4,650
Share premium	13	90,326	90,326
Other reserves		23,936	23,936
Accumulated losses		(32,327)	(26,349)
		<u>86,585</u>	<u>92,563</u>
Total equity		<u>86,585</u>	<u>92,563</u>

CONSOLIDATED BALANCE SHEET (Continued)*As at 31 December 2015*

		As at 31 December	
		2015	2014
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Accruals		8,671	7,805
Deposits received		790	838
Borrowings	<i>15</i>	395	155
Deferred income tax liabilities		36	88
Provision for reinstatement costs		2,982	2,730
		<hr/>	<hr/>
		12,874	11,616
		<hr/>	<hr/>
Current liabilities			
Trade payables	<i>14</i>	12,265	12,423
Accruals, provisions and other payables		18,950	18,285
Deposits received		23,051	32,884
Amounts due to related companies		320	341
Current income tax liabilities		802	613
Borrowings	<i>15</i>	24,581	25,178
		<hr/>	<hr/>
		79,969	89,724
		<hr/>	<hr/>
Total liabilities		92,843	101,340
		<hr/>	<hr/>
Total equity and liabilities		179,428	193,903
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to owners of the Company					Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Share-based payment reserve HK\$'000	Accumulated losses HK\$'000			
For the year ended 31 December 2014								
Balance as at 1 January 2014	4,000	39,873	55,652	18,950	(47,778)	70,697	41	70,738
Profit and total comprehensive income for the year	—	—	—	—	21,429	21,429	1,323	22,752
Total contributions by and distributions to owners of the Company recognised directly in equity								
Acquisition of the remaining equity interest of subsidiaries of the Group	580	45,763	(50,666)	—	—	(4,323)	(374)	(4,697)
Acquisition of a subsidiary	70	4,690	—	—	—	4,760	—	4,760
Dividends	—	—	—	—	—	—	(990)	(990)
Total transactions with owners	650	50,453	(50,666)	—	—	437	(1,364)	(927)
Balance as at 31 December 2014	4,650	90,326	4,986	18,950	(26,349)	92,563	—	92,563
For the year ended 31 December 2015								
Balance as at 1 January 2015	4,650	90,326	4,986	18,950	(26,349)	92,563	—	92,563
Loss and total comprehensive income for the year	—	—	—	—	(5,978)	(5,978)	—	(5,978)
Balance as at 31 December 2015	4,650	90,326	4,986	18,950	(32,327)	86,585	—	86,585

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1 GENERAL INFORMATION

U Banquet Group Holding Limited (the “Company”) was incorporated in the Cayman Islands on 20 June 2013 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The address of the Company’s registered office is Floor 4, Willow House, Cricket Square P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands. The Company’s principal place of business is located at Unit F, 28/F, Block 2, Vigor Industrial Building, 49-53 Ta Chuen Ping Street, Kwai Chung, New Territories, Hong Kong.

The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company and its subsidiaries (collectively, the “Group”) are principally engaged in the operation of a chain of Chinese restaurants, provision of wedding services, distribution of goods consisting of fresh vegetables, fruits, seafood and frozen meat, and franchising the use of “U Banquet” in a Chinese restaurant in Hong Kong.

These consolidated financial statements are presented in Hong Kong dollars (“HK\$”) unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 24 March 2016.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of U Banquet Group Holding Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, which are carried at fair value.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed.

(a) Going Concern Basis

During the year ended 31 December 2015, the Group incurred a net loss of HK\$5,978,000 and had net cash operating outflow of HK\$2,416,000. As at 31 December 2015, the Group's current liabilities exceeded its current assets by approximately HK\$19,082,000. The Group's current liabilities mainly consisted of deposits received from customers of approximately HK\$23,051,000 which will be recognised as revenue upon rendering of the relevant banquet and wedding related services in the next financial year, as well as an amount of HK\$13,650,000 representing a portion of bank borrowings being classified as current liabilities due to a repayment on demand clause in the loan agreement.

As at 31 December 2015, the Group had total banking facilities of approximately HK\$38,750,000, of which approximately HK\$24,250,000 was drawn down as bank borrowings and approximately HK\$8,500,000 was utilised for issuance of letters of guarantee in favour of landlords for rental and utility deposits. The Group's banking facilities are subject to annual review for renewal, and the upcoming renewal date is in April 2016. As at 31 December 2015, the Group failed to comply with one of the covenant requirements of one of the Group's banking facilities amounted to HK\$14,500,000, of which HK\$8,500,000 was utilised for issuance of letters of guarantee. Such breach of the covenant requirement may cause the relevant banking facilities of HK\$14,500,000 to be cancelled or suspended.

In view of these circumstances, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group has sufficient financial resources to continue as a going concern. The directors have reviewed the Group's cash flow projections prepared by management covering a period of twelve months from 31 December 2015. A number of measures have been put in place by the directors of the Company to further improve the financial position and alleviate the liquidity pressure, including:

1. In March 2016, the Group has obtained the bank's one-off waiver from compliance with the relevant breached covenant requirement for the year ended 31 December 2015 in relation to the Group's banking facilities of HK\$14,500,000. Despite the waiver does not cover the period after 31 December 2015, the letters of guarantee issued under these facilities remain in force and the Group is currently negotiating with the bank for renewal of the above banking facilities. Based on the latest communication with the bank, the bank has indicated its intention to renew the said banking facilities.
2. Management is in negotiation with the bank for renewal of the Group's remaining banking facilities of HK\$24,250,000. In March 2016, the Group received a letter of intent from the bank to renew these facilities with the same terms and conditions as the existing ones. The directors of the Company are of the opinion that such banking facilities will be renewed upon expiry and continue to be available to the Group for the next twelve months from the date of the balance sheet.

3. Management has become more cost conscious and is reducing unnecessary expenditures to improve its operating cashflows.

Based on the cash flow projections and taking into account the anticipated cash flows generated from the Group's operations, the possible changes in its operating performance, and the continuous availability of banking facilities, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2015. Accordingly, the directors of the Company consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

- (b) New amendments to existing standards that have been issued and are effective for the period commencing on 1 January 2015 that are relevant to the Group:

HKAS 19 (2011) Amendment	Defined benefit plans: Employee contributions
Annual Improvements Project 2012	Annual improvements to 2010-2012 cycle
Annual Improvements Project 2013	Annual improvements to 2011-2013 cycle

The adoption of the above amendments to standards did not have material impact on the financial statements or result in any significant changes to the Group's significant accounting policies.

- (c) The following new/revised standards and new amendments to existing standards have been issued and are relevant to the Group but not yet effective and have not been early adopted by the Group:

		Effective for accounting period beginning on or after
HKAS 1 Amendment	Disclosure initiative	1 January 2016
HKAS 16 and HKAS 38 Amendment	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKAS 27 Amendment	Equity method in separate financial statements	1 July 2016
HKFRS 9	Financial instruments	1 January 2018
HKFRS 10, HKFRS 12 and HKAS 28 Amendment	Investment Entities: Applying the consolidation exception	1 January 2016
HKFRS 15	Revenue from contracts with customers	1 January 2018
Annual Improvements Project 2014	Annual improvements 2012-2014 cycle	1 January 2016

The Group has commenced the assessment of the impact of these new or revised standards, amendments to standards and new interpretation but is not yet in a position to state whether they would have a significant impact on the Group's results of operations and its financial position.

(d) New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

3 SEGMENT INFORMATION

The Chief Operating Decision Maker (the "CODM") has been identified as the Chief Executive Officer ("CEO") and the directors of the Company who review the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

The CODM assesses the performance based on a measure of profit after income tax. The CODM considers all business is included in a single operating segment.

The Group is principally engaged in operation of a chain of Chinese restaurants, provision of wedding services, distribution of goods consisting of fresh vegetables, fruits, seafood and frozen meats. The Group also has been franchising the use of "U Banquet" in a Chinese restaurant. Since operation of a chain of Chinese restaurants attributed to majority of the Group's revenue, results and assets during the year ended 31 December 2015, no business segment analysis is presented accordingly.

The Group's revenue is mainly derived from customers in Hong Kong. The principal assets of the Group were also located in Hong Kong as at 31 December 2015. Accordingly, no analysis by geographical segment is provided. For the year ended 31 December 2015, there are no single external customers contributed to more than 10% revenue of the Group.

4 REVENUE AND OTHER INCOME

Turnover consists of revenue from (i) operation of Chinese restaurants including provision of dining and wedding banquet services, (ii) provision of wedding services, (iii) distribution of goods, consisting of fresh vegetables, fruits, seafood and frozen meat and (iv) franchising the use of “U Banquet” in a Chinese restaurant during the year are as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Revenue		
Revenue from Chinese restaurants operations	389,742	388,217
Revenue from provision of wedding services	4,062	3,836
Revenue from distribution of goods	4,033	4,777
Franchise income	3,234	1,238
	<u>401,071</u>	<u>398,068</u>
Other income		
Forfeiture of deposits received	850	767
Rental income	617	—
Reversal of provision for reinstatement costs	—	559
Gain on acquisition of a subsidiary	—	388
Miscellaneous income	5	59
	<u>1,472</u>	<u>1,773</u>
Total revenue and other income	<u><u>402,543</u></u>	<u><u>399,841</u></u>

5 COST OF REVENUE

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Cost of materials consumed	99,793	89,955
Cost of provision of wedding services	485	546
Cost of distribution of goods	2,122	3,020
	<u>102,400</u>	<u>93,521</u>

6 OTHER EXPENSES

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Auditors' remuneration		
— Audit services	1,906	1,154
— Non-audit services	750	—
Advertising and promotions	8,413	9,857
Cleaning and laundry expenses	6,293	6,106
Credit card charges	3,728	3,740
Kitchen consumables	1,154	1,508
Repairs and maintenance	4,891	3,630
Entertainment	3,129	2,828
Consumable stores	2,914	2,680
Insurance	1,845	2,143
Legal and professional fee	4,035	2,533
Printing and stationery	1,243	1,185
Staff messing	2,227	2,040
Service fee to temporary workers	16,682	13,344
Consultancy service fee	3,790	3,790
Wedding banquet expenses	1,662	2,616
Transportation	1,636	2,429
Annual fee in respect of listing of the Company's shares	150	100
Others	6,910	5,420
	<u>73,358</u>	<u>67,103</u>

7 FINANCE INCOME — NET

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Finance income		
— Interest income on short-term bank deposits	28	3
— Interest income arising from discount of non-current rental deposits	626	679
	<u>654</u>	<u>682</u>
	-----	-----
Finance costs		
— Interest expense on bank borrowings	(614)	(13)
— Interest expense on finance lease liabilities	(45)	(10)
— Unwinding of discount of provision for reinstatement costs	(103)	(98)
	<u>(762)</u>	<u>(121)</u>
	-----	-----
Finance (cost)/income — net	<u><u>(108)</u></u>	<u><u>561</u></u>

8 INCOME TAX EXPENSE

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Current income tax		
Current income tax on profits for the year	1,106	4,982
Deferred income tax		
Origination and reversal of temporary differences	(901)	54
	<u>(901)</u>	<u>54</u>
Income tax expense	<u><u>205</u></u>	<u><u>5,036</u></u>

9 (LOSS)/EARNINGS PER SHARE

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2015	2014
(Loss)/profit attributable to owners of the Company (HK\$'000)	<u>(5,978)</u>	<u>21,429</u>
Weighted average number of ordinary shares in issue (thousands)	<u>440,570</u>	<u>394,671</u>
Basic (loss)/earnings per share (HK\$)	<u><u>(1 cent)</u></u>	<u><u>5 cents</u></u>

The calculation of basic loss per share for the year ended 31 December 2015 is based on the loss attributable to owners of the Company of HK\$5,978,000 (2014: profit HK\$21,429,000) and the weighted average of ordinary shares in issue 440,570,000 (2014: 394,671,000 ordinary shares).

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: contingent returnable shares.

	2015	2014
(Loss)/profit attributable to owners of the Company (HK\$'000)	<u>(5,978)</u>	<u>21,429</u>
Weighted average number of ordinary shares in issue (thousands)	<u>440,570</u>	<u>394,671</u>
Adjustment for:		
— Contingent returnable shares (<i>Note (i)</i>)	<u>N/A</u>	<u>24,430</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>440,570</u>	<u>419,101</u>
Diluted (loss)/earnings per share (HK\$)	<u><u>N/A</u></u>	<u><u>5 cents</u></u>

For the year ended 31 December 2015, the potential ordinary shares arising from the conversion of 24,430,000 contingent returnable shares had an anti-dilutive effect on the basic loss per share, hence they were ignored in the calculation of diluted loss per share.

For the year ended 31 December 2014, the calculation of diluted earnings per share is based on the profits attributable to owners of the Company of HK\$21,429,000 and the weighted average of 419,101,000 ordinary shares in issue.

The weighted average number of ordinary shares for diluted loss per share represents the weighted average number of shares in issue during the year ended 31 December 2014 adjusted by the conversion of 24,430,000 contingent returnable shares. The contingent returnable shares were granted to Century Great Investment Limited in 2013 for services to be provided. The shares are restricted for a period of 5 years (Note (i)).

Note (i):

On 10 May 2013, Choi Fook Holdings Limited, a subsidiary of the Company, allotted and issued 75,000 new shares to Century Great Investments Limited (“Century Great”), which would be entirely exchanged to the shares of the Company upon completion of the reorganisation on 19 November 2013 at a consideration of HK\$75,000 and the services to be provided by Century Great which include, inter alia, reviewing the Group’s business operations and development and management policies from time to time, devising the Group’s marketing plan, seeking strategic investors for the Group and arranging regular trainings for directors and members of the senior management for a term of five full financial years after the listing (“the vesting period”). Century Great is liable to compensate the Group for all losses and damages resulting from its failure to provide the abovementioned services at any time during the vesting period.

Century Great undertakes that within the five full financial years after the listing, it will not, for each year, sell, or dispose of more than 20% of the entire shares which are beneficially owned by it upon the listing. Non-vesting condition refers to the lock-up period for the shares which are taken into account by adjusting the fair value of the shares so that the amount reflects the discount for the lock-up period. The shares in Century Great is converted to the shares of the Company of 24,430,000 shares and are restricted for a period of 5 years.

The fair value of the shares issued in return for services received approximates the fair value of services received by the Group. The estimate of fair value of services received was measured based on the discounted cash flow model. The fair value of the shares issued as at 10 May 2013 as determined by using the discounted cash flow was approximately HK\$18,950,000, discount rate of 15.0%, lack of control discount of 26.7% and terminal growth rate of 2.8%.

The services received by the Group commenced upon the listing. Share-based payment of HK\$18,950,000 was recognised as prepayment which is to be amortised over the vesting period of 5 years. HK\$3,790,000 of share based payment was recognised as an expense during the year.

10 DIVIDENDS

The directors do not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: Nil).

11 INVESTMENT PROPERTIES

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
At 1 January	25,500	—
Acquisition of a subsidiary	—	25,500
Fair value loss	(1,500)	—
	<hr/>	<hr/>
At 31 December	24,000	25,500
	<hr/> <hr/>	<hr/> <hr/>

The following amounts have been recognised in statement of comprehensive income for the investment properties:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Rental income	617	—
Direct operating expenses from properties that generated rental income	(61)	—
	<hr/>	<hr/>
At 31 December	556	—
	<hr/> <hr/>	<hr/> <hr/>

The investment properties were revalued at 31 December 2015 by an independent professionally qualified valuer, B.I. Appraisals Limited (2014: same), using the direct comparison approach by making reference to comparable sale evidence as available in the relevant market.

The Group's interests in investment properties, held on leases of between 35 and 39 years, are located in Hong Kong.

12 TRADE RECEIVABLES

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
0 to 30 days	1,251	1,090
31 to 60 days	405	767
61 to 90 days	237	502
Over 90 days	25	209
	<hr/> 1,918 <hr/>	<hr/> 2,568 <hr/>

The Group's revenue from its Chinese restaurants operations is mainly conducted in cash or by credit cards. The credit periods granted by the Group to its customers in wedding related business, customers in distribution of goods and a franchisee range from 0 to 90 days. As at 31 December 2015, trade receivables that were not past due nor impaired amounted to approximately HK\$1,893,000 (2014: HK\$2,359,000). These balances relate to a wide range of customers for whom there was no recent history of default.

As at 31 December 2015, no trade receivables were impaired (2014: same). No provision for impairment of trade receivables was made as at 31 December 2015 (2014: same).

The carrying amounts of trade receivables approximate their fair values and are denominated in Hong Kong dollars. The maximum exposure to credit risk at the balance sheet date is the carrying value of trade receivables mentioned above. The Group does not hold any collateral as security.

13 SHARE CAPITAL AND SHARE PREMIUM

	<i>Note</i>	Number of ordinary shares	Nominal value of ordinary shares <i>HK\$'000</i>	Share premium <i>HK\$'000</i>
Authorised:				
Ordinary shares of HK\$0.01 each as at 31 December 2015		10 billion	100,000	—
Issued and fully paid:				
At 1 January 2014		400,000,000	4,000	39,873
Issue of share for acquisition of the remaining equity interest of subsidiaries of the Group	<i>(a)</i>	58,000,000	580	45,763
Issue of share for acquisition of a subsidiary	<i>(b)</i>	7,000,000	70	4,690
At 31 December 2014, 1 January 2015 and 31 December 2015		465,000,000	4,650	90,326

- (a) On 4 September 2014, the Group completed the acquisition of the remaining non-controlling interest in each of General Corporation Limited and Smart Award Limited by the issue of 36,800,000 ordinary shares and 21,200,000 ordinary shares of HK\$0.88 each respectively, net of transaction cost of HK\$4,697,000.
- (b) On 22 December 2014, the Group completed the acquisition of the entire equity interest in Billion Treasure Property Development Limited through issuance of 7,000,000 ordinary shares of HK\$0.68 each.

14 TRADE PAYABLES

The ageing analysis of trade payables based on invoice date is as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
0 to 30 days	8,745	9,139
31 to 60 days	3,512	3,276
61 to 90 days	—	8
Over 90 days	8	—
	<u>12,265</u>	<u>12,423</u>

The carrying amounts of trade payables approximate their fair values and are denominated in HK\$.

15 BORROWINGS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Non-current		
Finance lease liabilities	395	155
Current		
Bank borrowings	24,250	24,850
Finance lease liabilities	331	328
	<u>24,581</u>	<u>25,178</u>
Total borrowings	<u>24,976</u>	<u>25,333</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

The Group is principally engaged in operation of full-services Chinese restaurants including the provision of dining and wedding banquet services, provision of wedding services and distribution of goods consisting of fresh vegetables, fruits, seafood and frozen meat. The Group also has been franchising the use of “U Banquet” to a Chinese restaurant in Hong Kong.

Restaurants Operation

For the financial year ended 31 December 2015, the Group operated a total of nine restaurants, eight of which under “U Banquet (饗宴)” brand and one of which under “Hot Pot Cuisine (涮得棧)” brand.

We position ourselves entirely different from traditional, single service-focused Chinese restaurants in Hong Kong. For our dining services, we aim at attracting customers with preferences for fresh and tasty Cantonese dishes and quality service in hygienic and modernly designed restaurant venues suitable for family and friends, gatherings and corporate functions. For wedding banquet services, we target customers with specific standards and expectations for venue design and decoration, banquet dishes and wedding services and we help them simplify and smoothen their wedding planning and preparation process by offering one-stop wedding solutions and the choices of creatively-designed venues as alternatives to traditional Chinese restaurants.

In March 2016, the Group entered into an offer letter with a landlord, pursuant to which, a new restaurant will be opened at Tsim Sha Tsui in the third quarter of the year 2016.

The management resolved to improve the operating efficiency and control expenditures of the Group. The Group reviewed the work allocation of the staff from time to time to enhance labour efficiency. The Group also entered into long term tenancy agreements to maintain the operating lease payments at reasonable level. We had successfully extended our tenancy agreement for the restaurants located in Kwun Tong, Tsim Sha Tsui and Causeway Bay during the year 2015.

We believe that high product quality, service reliability and management of operations are key success factors in business growth and sustainability. We have a reliable management team to oversee daily restaurant operations and wedding banquet services, to maintain quality control standards, to monitor workforce performance and to implement expansion strategies. Our senior management and the management at restaurant-level consist of members with solid experience in the Chinese restaurant and wedding service industry and they are familiar with different aspects of operations of these industries.

Provision of Wedding Services

During the year, due to the expiry of tenancy agreements, two wedding shops located in Kowloon Bay was closed and a new wedding shop was opened at Tsim Sha Tsui which continues to provide services including wedding photos, rental and sale of wedding gowns and decoration and rental of wedding halls under the trade name of “U Weddings”. We distinguish ourselves from our competitors by our ability to provide (as a specialized wedding service provider) our customers high quality wedding banquets and wedding services.

Distribution of Goods

Our distribution of goods business consists of sourcing fresh vegetables, fruits, seafood and frozen meat to local restaurants and food ingredient suppliers. During the year, we continued to seek potential customers to broaden our revenue stream.

Franchise of Restaurants Operation

During the year, we had one franchised restaurant operated in Kowloon Bay under the trade name “U Banquet”. The Directors will review and evaluate the performance of the existing franchise business from time to time, and will consider any potential franchisee if and when opportunities arise in the future.

Environmental Policy

The Group supports environmental protection and continues to implement green office practices. Such measures include the use of energy-saving lightings and recycled paper, minimizing the use of paper and reducing energy consumption by switching off idle lightings, computers and electrical appliances.

FINANCIAL REVIEW

Revenue

The table below sets forth the revenue breakdown of the Group's for the two years ended 31 December 2015:

	For the year ended	
	31 December	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue		
— from Chinese restaurants operations	389,742	388,217
— from provision of wedding services	4,062	3,836
— from distribution of goods	4,033	4,777
— franchise income	3,234	1,238
	<hr/>	<hr/>
	401,071	398,068
	<hr/> <hr/>	<hr/> <hr/>

Revenue of the Group increased by approximately 1.0% from approximately HK\$398.1 million in 2014 to approximately HK\$401.1 million in 2015. The increase is mainly attributable to the full-year revenue contribution from the franchised restaurant while revenue from the other restaurants remain stable from approximately HK\$388.2 million in 2014 to approximately HK\$389.7 million in 2015. The franchised restaurant operated for the full year in 2015 while it only operated for three months in 2014. According to the franchise agreement, the Group will receive a monthly franchise fee of HK\$125,000 for 24 months and the franchisee will also pay the Group 10% of the monthly gross turnover of the franchised business as management fee. In addition, the Group shall provide consultancy services to the franchisee, including human resource management, food quality control, energy saving and staff training. The Group received approximately HK\$3,234,000 franchise fee and management fee during the year ended 31 December 2015 (2014: HK\$1,238,000).

Operating Performance by Restaurant

The table below sets forth the seat turnover rate, average spending per customer and average daily revenue generated by each of the Group's restaurants for the two years ended 31 December 2015:

	Year ended 31 December		Year ended 31 December				Year ended 31 December	
	2015	2014	2015		2014		2015	2014
	Seat turnover rate (Note 1)		Average spending per customer				Average daily revenue	
			Wedding banquet customer	Dining customer	Dining customer	Wedding banquet customer		
	<i>Times</i>	<i>Times</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
U Banquet (Mong Kok) (1) and U Banquet (Mong Kok) (2)	3.27	3.40	95	549	96	559	224,035	235,532
U Banquet (Tsim Sha Tsui)	4.25	4.21	85	558	77	566	101,375	94,018
U Banquet (Kwun Tong)	4.36	4.67	97	563	93	553	141,890	144,997
U Banquet (Causeway Bay)	3.18	3.25	100	577	98	566	143,292	147,500
U Banquet (North Point)	3.14	3.20	80	604	80	506	139,497	142,186
U Banquet (Wong Tai Sin) and Hot Pot Cuisine Restaurant	4.14	4.12	68	543	72	537	208,632	223,524
U Banquet (Sino Plaza)	3.90	4.04	101	583	107	570	109,065	104,888

Note:

- The seat turnover rate was calculated by dividing the total number of diners (including wedding banquet diners) by the total number of seats available for regular dining service in the relevant restaurant then divided by the total number of operation days for the relevant year.

Analysis for the Two Years Ended 31 December 2015

The average spending per customer for wedding banquet of all of the Group's restaurants as a whole slightly increased from approximately HK\$560 in 2014 to approximately HK\$562 in 2015, representing an increase of 0.4% while the average spending per customer for dining slightly decreased from approximately HK\$85 in 2014 to approximately HK\$84 in 2015, representing a decrease of approximately 1.2%. Revenue from Chinese restaurant operations increased by approximately 0.4% from approximately HK\$388.2 million for the year ended 31 December 2014 to approximately HK\$389.7 million for the year ended 31 December 2015. Such increase was mainly attributable to the increase in the average spending per customer for wedding banquet as the number of wedding banquets held increased, mitigated by the decrease of average spending per customer for dining as well as the decrease in the number of diners for the provision of dining services.

Save for U Banquet (Tsim Sha Tsui), U Banquet (Wong Tai Sin) and Hot Pot Cuisine Restaurant, the seat turnover rate of all other restaurants decreased for the year ended 31 December 2015 as compared to that in 2014. The Directors believed that the increase in the seat turnover rate of U Banquet (Tsim Sha Tsui), U Banquet (Wong Tai Sin) and Hot Pot Cuisine Restaurant was a result of the Group's marketing effort.

The increase in the seat turnover rate of U Banquet (Tsim Sha Tsui) for the year ended 31 December 2015 as compared to that in 2014 was mainly due to the increase in the number of wedding banquets held and the number of diners for the provision of dining services. The improved seat turnover rate, coupled with the increase in the average spending per dining customer, contributed to the increase in the average daily revenue of U Banquet (Tsim Sha Tsui) of approximately 7.8% as compared to that for the year ended 31 December 2014.

As a result of the increase in the number of diners for the provision of dining services, the seat turnover rate of U Banquet (Wong Tai Sin) and Hot Pot Cuisine Restaurant improved in 2015 as compared to that of 2014. However, the decrease in the average daily revenue of U Banquet (Wong Tai Sin) and Hot Pot Cuisine Restaurant by approximately 6.7% was mainly attributable to the decrease in the average spending per dining customer.

U Banquet (Mong Kok) (1) and U Banquet (Mong Kok) (2) recorded a decrease in the seat turnover rate for the year ended 31 December 2015 as compared to the corresponding period in 2014, mainly due to the lower number of operation days for the year ended 31 December 2014 as a result of refurbishment during the period from April 2014 to mid-May 2014, although there was an increase in the number of wedding banquets held and the number of diners for the provision of dining services in 2015. The average daily revenue of U Banquet (Mong Kok) (1) and U Banquet (Mong Kok) (2) decreased by approximately 4.9% during the same period, primarily due to the decrease in the seat turnover rate and the average spending per wedding banquet customer.

For the year ended 31 December 2015, the decrease in the seat turnover rate of U Banquet (Kwun Tong) and U Banquet (Causeway Bay) as compared to the corresponding period in 2014 was mainly due to the decrease in the number of diners for the provision of dining services. Hence, the average daily revenue of U Banquet (Kwun Tong) and U Banquet (Causeway Bay) decreased by approximately 2.1% and 2.9%, respectively.

Due to the decrease in the number of wedding banquets held and the number of diners for the provision of dining services, the seat turnover rate and the average spending for the provision of dining services of U Banquet (North Point) decreased in 2015 as compared to that of 2014. Hence, the average daily revenue of U Banquet (North Point) decreased by approximately 1.9%.

Cost of Revenue

The cost of revenue comprised cost of materials consumed, cost of distribution of goods and cost of provision of wedding services. Cost of revenue for the year ended 31 December 2015 amounted to approximately HK\$102,400,000 (2014: HK\$93,521,000), representing an increase of approximately 9.5% as compared to last year. The increase in cost of revenue was larger than the increase of revenue for the year ended 31 December 2015. It was because more fresh seafood with lower gross profit margin had been purchased to cater for the special seafood menu during the year. As a result, the cost of revenue increased to approximately 25.5% of the Group's revenue for the year ended 31 December 2015 (2014: 23.5%).

Employee Benefit Expenses

Employee benefit expenses for the year ended 31 December 2015 amounted to approximately HK\$112,111,000 (2014: HK\$99,982,000), representing an increase of approximately 12.1% as compared to the last year. The increase was mainly due to the wage adjustments to retain experienced staff under the inflationary environment. The Group regularly reviews the work allocation of the staff to improve and maintain a high standard of service.

Operating Lease Payments

Operating lease payments for the year ended 31 December 2015 amounted to approximately HK\$69,058,000, representing an increase of approximately 11.0% as compared to last year. The increase was mainly due to the effect of lease renewal in March 2014 for restaurants located in Mong Kok being fully reflected in the year ended 31 December 2015.

Utilities Expenses

Utilities expenses for the year ended 31 December 2015 amounted to approximately HK\$33,860,000 representing, an increase of approximately 0.5% as compared to last year. The increase was in line with the increase of revenue of the Group for the year ended 31 December 2015.

Other Expenses

Other expenses mainly represent expenses incurred for the Group's operation, consisting of consultancy service fee, service fees to temporary workers, kitchen consumables, laundry, cleaning, repair and maintenance, advertising and promotion, legal and professional, etc. For the year ended 31 December 2015, other expenses amounted to approximately HK\$73,358,000, representing an increase of approximately 9.3% as compared to last year. The increase was primarily due to the one-off transfer listing expenses of approximately HK\$2,169,000 incurred in the year 2015 while no such expenses was incurred for the year ended 31 December 2014. In addition, service fees to temporary workers increased significantly from approximately HK\$13,344,000 for the year ended 31 December 2014 to approximately HK\$16,682,000 for the year ended 31 December 2015. Such increase was mainly due to increase of wedding banquets for the year 2015 as well as the increase in statutory minimum wage from HK\$30 per hour to HK\$32.5 per hour commencing on 1 May 2015.

Loss/Profit Before Tax and Loss/Profit Attributable to Owners of the Company

During the year under review, the performance of restaurant operation for dining services did not reach the expectation from the Group's management. It is primarily due to (a) the recent economic downturn in the fourth quarter of 2015 reducing consumers' will to consume whilst September to December are our high season months; and (b) a significant reduction in the number of customers after the implementation of the "One-trip-per-week" policy by the PRC Government in 2015. As the result, the revenue generated from dining services decreased from approximately HK\$291,941,000 in 2014 to approximately HK\$288,462,000 in 2015.

The impact of abovementioned economic downturn and policy did not affect the performance of our wedding banquet operation in 2015 as most of the wedding banquets have been reserved more than six months in advance. The revenue generated from wedding banquets had stable growth from approximately HK\$96,275,000 to approximately HK\$101,280,000.

With an increase in the operating cost which includes cost of materials consumed, employee benefit expenses, operating lease payment, other expenses and fair value loss of the Group's investment properties, the Group incurred a loss before tax and a loss attributable to owners of the Company for the year ended 31 December 2015 of approximately HK\$5,773,000 and HK\$5,978,000 respectively, while profit before tax and profit attributable to owners of the Company amounted to approximately HK\$27,788,000 and HK\$21,429,000 in last year.

Liquidity, Financial Resources and Capital Resources

Capital Structure

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors its capital on the basis of the gearing ratio. The Group's strategy, which was unchanged during the year ended 31 December 2015, was to lower the gearing ratio to an acceptable level.

Cash Position and Pledged Bank Deposit

As at 31 December 2015, the Group's cash and cash equivalents were approximately HK\$29,820,000, representing a decrease of 22.3% as compared to approximately HK\$38,370,000 as at 31 December 2014. It is mainly due to decrease of deposits received for wedding banquets as at 31 December 2015. There were no pledged bank deposits as at 31 December 2015 (2014: Nil).

Bank Borrowing and Changes on the Group's Assets

The bank borrowings outstanding as at 31 December 2015 amounted to approximately HK\$24,250,000, representing a decrease of approximately 2.4% as compared to 31 December 2014. The bank borrowing existed due to the acquisition of the entire equity interest in Billion Treasure Property Development Limited ("Billion Treasure") which was completed in December 2014. The bank borrowings are secured by certain investment properties and buildings held by Billion Treasure.

Other than the bank borrowings mentioned above, as at 31 December 2015, the Group had another banking facility of approximately HK\$14,500,000 available for use, of which approximately HK\$8,500,000 was utilised for letters of guarantee from a bank for rental and utility deposits and the remaining of approximately HK\$6,000,000 was not utilised. As at 31 December 2015, the Group failed to comply with one of the covenant requirements of this banking facility. Such breach of the covenant requirement may cause the relevant banking facility to be cancelled or suspended. In March 2016, the Group had obtained the bank's one-off waiver from compliance with the relevant breached covenant requirement for the year ended 31 December 2015.

Trade Receivables

As at 31 December 2015, the Group's trade receivables were approximately HK\$1,918,000, representing a decrease of approximately 25.3% as compared to the last year. The trade receivables mainly comprised of trade receivable from the distribution of goods. The decrease in trade receivables was primarily due to the decrease in revenue from distribution of goods.

Gearing Ratio

The gearing ratio is measured by net debt (aggregate of current and non-current borrowings less cash and cash equivalents) divided by total capital (calculated as total equity plus net debt). As at 31 December 2015, the Group was at net cash position (2014: same), hence the gearing ratio is not applicable.

The emoluments of the Directors are determined by the Remuneration Committee, with reference to their respective contribution of time, effort and expertise on the Company's matters.

Dividends

The Directors do not recommend payment of final dividend in respect of the year ended 31 December 2015 (2014: nil).

Event After the year ended 31 December 2015

There was no material subsequent event during the period from 1 January 2016 to the date of this announcement.

Prospects

The operating environment in Hong Kong is expected to remain challenging for the foreseeable future. Nonetheless, the management is confident that the Group can succeed and enhance the shareholders' value.

The Group is continuously searching for appropriate locations with high traffic flow and reasonable rentals to expand its restaurant network. The Group did not launch any new restaurant in the year 2015 as the Group could not reach a reasonable lease arrangement with any landlord. However, the Group had entered an offer letter in March 2016 with a landlord for a restaurant located in Tsim Sha Tsui which is expected to be open in the third quarter of 2016. This new restaurant is expected to become another major income stream for the Group and enlarge the Group's market share within the industry.

The Group will continue to deploy different marketing strategies, adding creative features to the existing and new restaurants, meanwhile, implementing effective cost control measures and minimizing the operating costs on rental, raw materials and labour accordingly.

Looking forward, the Group will continue to utilise its available resources to engage in its current business. The Group will continue developing its core business, including opening more local restaurants proactively in order to sustain the Group's growth, seeking potential customers in respect of distribution of goods business to deliver satisfactory returns to its shareholders. The acquisition of Billion Treasure provides an opportunity for the Group to broaden its earnings base and enables the Group to receive a stable rental income. Apart from this, the Group will also continue to explore business opportunities associated with its core business to strengthen its revenue base and maximise its return of the shareholders and value of the Company.

The Group has been successfully transferred listing from the Growth Enterprise Market to the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 31 August 2015. The Board believes that the transfer of listing will enhance the profile of the Company and increase the trading liquidity of the Shares. The Board considers that the transfer of listing will be beneficial to the future growth and business development of the Group as well as its financing flexibility.

To manage the Group's compliance status, the Legal and Compliance Committee held monthly meetings to review the Group's compliance with Main Board Listing Rules, internal control measures and all relevant laws and regulations. The results of such review were satisfactory. The Group has also appointed an external independent internal control consulting company to conduct annual review of the effectiveness of the Group's internal control and risk management systems. No material internal control and risk management deficiencies were identified.

CORPORATE GOVERNANCE

The Company has complied with the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) throughout the year. The Company has applied the principles of, and complied with, the applicable code provisions of the CG Code during the year ended 31 December 2015, except for certain deviations as specified with considered reasons for such deviations as explained below.

Under Code Provision A.2.1 of the CG Code, the roles of the Chairman and Chief Executive Officer should be separated and should not be performed by the same individual.

During the year under review, the Company has not separated the roles of Chairman and Chief Executive Officer of the Company. Mr. Cheung Ka Ho was the Chairman and also the Chief Executive Officer of the Company responsible for overseeing the operations of the Group during such period. Due to the nature and the extent of the Group’s operations and Mr. Cheung Ka Ho’s in-depth knowledge and experience in the industry and his familiarity with the operations of the Group, the Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership enabling the Group to operate efficiently. The Board believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high-calibre individuals, with three of them being Independent Non-Executive Directors. Nevertheless, the Company will continue to look for suitable candidates and will make necessary arrangement pursuant to the requirement under A.2.1 of CG Code as and when necessary.

Further information on the Company’s corporate governance practices will be set out in the Corporate Governance Report contained in the Company’s annual report for the year ended 31 December 2015, which will be sent to the shareholders in due course.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Group had adopted Appendix 10 of the Listing Rules (the “Model Code”) as its own code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard of dealings. Having made specific enquiries to all the Directors and all the Directors of the Company had confirmed compliance with the required standard of dealings and the code of conduct for directors’ securities transactions during the year ended 31 December 2015.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the company during the year.

AUDIT COMMITTEE REVIEW

Pursuant to the requirements of the CG Code and the Listing Rules, the Company has established an audit committee (the “Audit Committee”) which comprises three Independent Non-Executive directors. Mr. Wong Sui Chi is the chairman of the Audit Committee.

The annual results for the year ended 31 December 2015 have been reviewed by the Audit Committee.

COMPETING BUSINESS

For the year ended 31 December 2015, the Directors are not aware of any business or interest of the Directors, the management of the Company and their respective associates (as defined under the Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our customers, shareholders, bankers, and in turn the management and staff for their unreserved support for the Group during the year.

By Order of the Board
U Banquet Group Holding Limited
Cheung Ka Ho
Chairman and Executive Director

Hong Kong, 24 March 2016

As at the date of this announcement, the Executive Directors are Mr. Cheung Ka Ho, Mr. Cheung Ka Kei and Mr. Kan Yiu Pong; the Independent Non-executive Directors are Mr. Chung Kong Mo JP, Ms. Wong Tsip Yue Pauline and Mr. Wong Sui Chi.