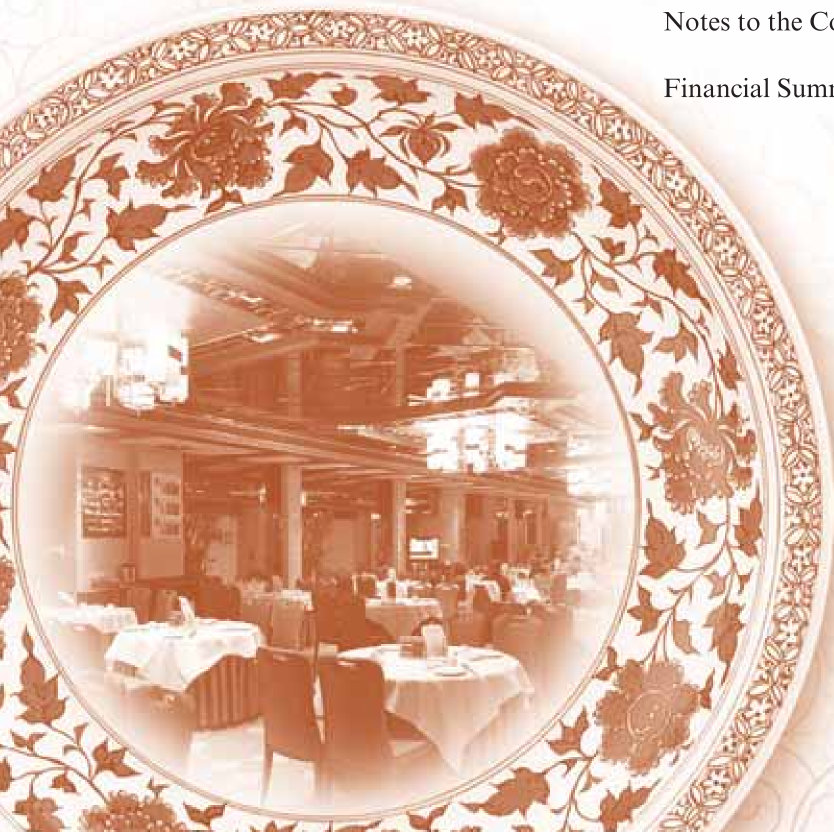
唐宮(中國)控股有限公司
TANG PALACE (CHINA) HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1181

ANNUAL REPORT 2011

Contents



Corporate Information

DIRECTORS

Executive Directors
Mr. Yip Shu Ming *(Chairman)*
Mr. Chan Man Wai
(Vice-Chairman)
Mr. Ku Hok Chiu
Ms. Weng Peihe

Independent Non-Executive Directors
Mr. Kwong Chi Keung
Mr. Kwong Ping Man
Mr. Cheung, Kin Ting Alfred

COMPANY SECRETARY

Mr. Leung Wai Chuen, *FCCA, ACIS*

AUTHORISED REPRESENTATIVES

Mr. Chan Man Wai
Mr. Leung Wai Chuen, *FCCA, ACIS*

MEMBERS OF AUDIT COMMITTEE

Mr. Kwong Ping Man
(Chairman)
Mr. Kwong Chi Keung
Mr. Cheung, Kin Ting Alfred

MEMBERS OF NOMINATION COMMITTEE

Mr. Cheung, Kin Ting Alfred
(Chairman)
Mr. Kwong Ping Man
Mr. Kwong Chi Keung

MEMBERS OF REMUNERATION COMMITTEE

Mr. Kwong Chi Keung
(Chairman)
Mr. Cheung, Kin Ting Alfred
Mr. Kwong Ping Man

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 3, 10th Floor
Greenfield Tower
Concordia Plaza
No. 1 Science Museum Road
Kowloon
Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company
(Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong)
Wing Hang Bank
Industrial and Commercial
Bank of China,
Huacheng Branch

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISOR

As to Hong Kong law:
Chiu & Partners

COMPLIANCE ADVISOR

Cinda International Capital
Limited

STOCK CODE

The Stock Exchange of Hong
Kong Limited:
1181

WEBSITE

www.tanggong.cn

Financial Highlights and Calendar

	Notes	2011 RMB'000	2010 RMB'000	Increase/ (Decrease) %
Performance				
Revenue		**746,203**	606,529	23.0%
Profit and total comprehensive income for the year and attributable to owners of the Company:				
– before deducting listing and related expenses		**64,423**	48,629	32.5%
– after listing and related expenses		**50,726**	46,531	9.0%
Operating margin	1	**58.9%**	57.1%	3.2%
Net profit margin:	2			
– before deducting listing and related expenses		**8.6%**	8.0%	7.5%
– after listing and related expenses		**6.8%**	7.7%	(11.7%)
Per Share Data				
Earnings per share (RMB)				
–Basic		**0.133**	0.155	(14.2%)
–Dilutive		**0.133**	0.155	(14.2%)
Proposed final dividend per share (HK$)		**0.090**	–	

	Notes	2011 RMB'000	2010 RMB'000	Increase/ (Decrease) %
Total assets		**455,404**	272,367	67.2%
Net current assets		**215,854**	24,692	774.2%
Total equity		**339,259**	138,224	145.4%
Net cash	3	**293,567**	85,883	241.8%
Liquidity and Gearing				
Current ratio	4	**2.9**	1.2	141.7%
Gearing ratio	5	**–**	15.1%	(100.0%)

FINANCIAL HIGHLIGHTS AND CALENDAR

Notes:

1. The calculation of operating margin is based on revenue less cost of inventories consumed, divided by revenue and multiplied by 100%.

2. The calculaiton of net profit margin is based on profit and total comprehensive income attributable to owners of the Company divided by revenue and multiplied by 100%.

3. Net cash is calculated by bank balances and cash less bank borrowings.

4. The calculation of current ratio is based on current assets divided by current liabilities.

5. The calculation of gearing ratio is based on bank borrowings divided by total assets and multiplied by 100%.

CALENDAR

Listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")	19 April 2011
Announcement of interim results	19 August 2011
Announcement of annual results	28 March 2012
Despatch of annual report to shareholders	Late April 2012
Closure of register of members for ascertaining shareholders' right to attend and vote at annual general meeting	21 May 2012 to 25 May 2012 (both days inclusive)
Annual general meeting	25 May 2012
Closure of register of members for ascertaining shareholders' entitlement to the proposed final dividend	31 May 2012 to 1 June 2012 (both days inclusive)
Final dividend at HK$0.09 per share payable	on or before 15 June 2012

CHAIRMAN'S STATEMENT

STRIVE FOR HEALTHY, DELICIOUS, STYLISH AND QUALITY DINING WHILST MAXIMIZE VALUE FOR CUSTOMERS, EMPLOYEES AND SHAREHOLDERS

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Tang Palace (China) Holdings Limited (the "**Company**" together with its subsidiaries, collectively the "**Group**"), I am pleased to present the annual report of the Company for the year ended 31 December 2011.

INITIAL PUBLIC OFFERING

The year 2011 for Hong Kong was a year of slump in equity capital market due to lingering effect of the financial crisis in the United States of America and European countries. Furthermore, in March 2011, there was a catastrophic earthquake, tsunami and nuclear radiation pollution in Japan. For the Group, the year 2011 was a year of unforgettable memory. On 19 April 2011 (the "**Listing Date**"), the Company had undergone a remarkable initial public offering (the "**IPO**"), recording an oversubscription in Hong Kong public offer of over 600 times and raising a net proceed of approximately HK$164.2 million with over-allotment option fully exercised. The share price of the IPO was fixed at high-end of HK$1.65 with the closing market price on the Listing Date at HK$2.31, 40% higher than the offering price, and peaked at HK$3.46 on 11 May 2011. Apart from enthusiastic support from individual investors and professional institutional investors, our cornerstone investors, Orchid Asia IV, L.P. and Orchid Asia IV Co-Investment, Limited, have made an unstoppable support for us by increasing their shareholding in the Company in aggregate to 7.90% as at 31 December 2011. The Company was also ranked as one of the top three IPO performers in 2011.

FINANCIAL RESULTS

For the year ended 31 December 2011 ("**FY2011**"), the Group's consolidated revenue was approximately RMB746.2 million (year ended 31 December 2010 ("**FY2010**"): RMB606.5 million), showing a year-on-year growth of 23.0%. The Group's operating profit (defined as revenue less cost of inventories consumed) was approximately RMB439.9 million for FY2011 (FY2010: RMB346.1 million), showing a year-on-year growth of 27.1%. The operating margin improved from approximately 57.1% for FY2010 to approximately 58.9% for FY2011. Before deducting listing and related expenses of approximately RMB13.7 million for FY2011 (FY2010: RMB2.1 million), the Group's net profit and net profit margin (net profit divided by revenue multiplied by 100%) for FY2011 were approximately RMB64.4 million and 8.6% respectively (FY2010: RMB48.6 million and 8.0% respectively), showing a year-on-year growth of 32.5% and 7.5% respectively. Profit and total comprehensive income for FY2011 and attributable to owners of the Company was approximately RMB50.7 million (FY2010: RMB46.5 million), showing a year-on-year growth of approximately 9.0%. Basic and diluted earnings per share for FY2011 arrived at approximately RMB0.133, as compared to approximately RMB0.155 for FY2010.

DIVIDEND

The Board recommended the payment of a final dividend of HK$0.09 per share, representing approximately 59.9% as payout ratio, payable to shareholders of the Company whose names appear on the register of members of the Company on 1 June 2012. The Board wishes to clarify that such proposed dividend was recommended due to the good performance of the Group's results achieved in 2011 and taken into account the Group's sufficiency in resources for its working capital and business development requirements, the Company would like to share the achievement with its shareholders by way of a higher dividend payout. The Board would also like to clarify that there is no change to the Company's current dividend policy as stated in the Company's prospectus dated 7 April 2011 (the "**Prospectus**") to distribute no more than 50% of the Group's net profit for each year. Subject to the approval of the shareholders of the Company at the forthcoming annual general meeting ("**Annual General Meeting**") to be held on 25 May 2012, the final dividend will be paid on or before 15 June 2012.

BUSINESS REVIEW

Chinese Restaurant Business

Chinese cuisine restaurant business accounted for approximately 97.0% of the Group's revenue for FY2011 (FY2010: 98.2%). Following the opening of two new restaurants in Beijing in 2011, the Group has nineteen Chinese restaurants across China, eight in Beijing, six in Shanghai, one in Hanzhou, one in Suzhou, one in Dongguan and two in Shenzhen as at 31 December 2011. Of the nineteen Chinese restaurants, eight shops with revenue totaled approximately RMB358.0 million in FY2011 (FY2010: RMB301.0 million) has been located inside branded hotels, like Minzu Hotel (民族飯店) and Novotel Beijing Xinqiao Hotel (北京諾富特新橋飯店) in Beijing, Shanghai Galaxy Hotel (上海銀河賓館) and Sky Fortune Boutique Hotel (天禧嘉福酒店) in Shanghai. Our on-going strategy is focusing on cooperating with different renowned hotel chain groups, including both China domestic and international types. We have developed a long-term cooperation with Beijing Capital Tourism Group Co., Ltd. (北京首都旅遊股份有限公司) and Shanghai Jin Jiang International Hotels (Group) Company Limited (上海錦江國際酒店(集團)股份有限公司). Our intimate cooperation with branded hotel groups has proved to benefit us from securing high-end spending customers from business and corporate sectors. Apart from hotel group cooperation, the Group also has restaurants located in premier shopping malls, like Chaoyang Joy City (朝陽大悅城) in Beijing, Super Brand Mall (正大廣場) and Jinjiang Dickson Center (錦江迪生中心) in Shanghai, Hangzhou MIXC Shopping Mall (杭州萬象城) and Suzhou Matro Shopping Mall (蘇州美羅城). Cooperation with such renowned hotel chain groups and mall management groups enables us to expand swiftly across the first-tier and second-tier cities and largely capture mid- to high-end customer profile in China.

Banqueting market segment kept booming in the past years, especially in Guangdong and Huadong areas in the People's Republic of China (the "**PRC**" or "**China**"). The Group was increasing its efforts in such segment by frequently attending different banquet exhibitions during 2011 and was encouraged by a healthy year-on-year growth in such segment though the total revenue arising from such segment was low compared to the Group's revenue. The operating margin from the banquet market is normally higher as most food and dishes can be pre-made or pre-processed, reducing food waste and better staffing strategy. Our decision to tap this market can promote the trends, current and future, of convening memorable weddings and banquets in branded hotels and premier malls by the young generation with higher spending power.

Fast Food and Casual Dining Business

For FY2011, the Group, as a franchisee, had operated six Pepper Lunch fast food restaurants (FY2010: one) in China, five in Beijing and one in Tianjin, recording a total revenue of approximately RMB11.5 million for FY2011 (FY2010: RMB1.8 million), showing a year-on-year growth of approximately 538.9%. The average spending per customer was approximately RMB43.3 for FY2011 (FY2010: RMB35.8), showing a gradual increase in brand recognition by the customers in China. The operating margin was approximately 59.8% for FY2011 as compared to 58.2% for FY2010. As the first mover of "Pepper Lunch" (胡椒廚房) brand in the Eastern and Northern China, ample marketing and promotional effort were put in place, lowering the operating margin in initial stages. Although an overall loss for Pepper Lunch had been recorded for FY2011, we noted improvement in some shops in terms of average daily revenue and customer traffic, signaling brand awareness by young diners.

For the casual dining line, we newly opened Sakuragawa Japanese Restaurant (櫻川日本料理) in Shanghai in 2011, in addition to our present Ninja House Japanese Restaurant (忍者居日本料理). The revenue of this line totaled approximately RMB8.8 million for FY2011 (FY2010: RMB7.9 million).

Cost Control

Apart from the above market and product diversification strategies, the Group also focuses on cost control especially under current fierce inflationary environment in the PRC. The inflation peaked in August 2011 and considerably eased at the end of 2011. Pricing strategy is only one of the ways to curb the difficulties, we had implemented cost control measures through bettering centralized procurement for high-value food items of larger scale, serviced staff and cook exchange programs with large-scale hotel and tourism management schools across China, departments and procedures re-engineering and streamlining paired with large-scale Enterprise Resource Planning ("**ERP**") application were also efficient and effective means to encounter the inflation threat. Besides, long-term tenancy arrangement with renowned hotel chain groups and mall management groups were also effective strategies in stabilizing rental expenses in short to long run. Improving performance reflected by our higher operating margin at approximately 58.9% for FY2011 (FY2010: 57.1%), staff related costs ratio to revenue dropping to 23.2% for FY2011 as compared to 24.2% in the first half of 2011 and better net profit margin at approximately 8.6% for FY2011 (before deducting one-off listing and related expenses) compared to 8.0% for FY2010.

Outlook

Looking forward, the Group is diversifying its strategies in markets and products. To penetrate more effectively into different branded hotel chain groups, the Group is seeking cooperation with existing China domestic hotel chain groups as well as international hotel brands. We have successfully secured the opening of a Chinese restaurant located inside Shanghai Marriott Hotel Hongqiao (上海萬豪虹橋大酒店) in Shanghai in the third quarter of 2012, and negotiate with a hotel group about the opening of a Chinese restaurant inside Venetian Macao Resort Hotel (澳門威尼斯人渡假村酒店) in Macau in the second quarter of 2012. The Group will open a Chinese restaurant in Bai Yu Lan Hotel (白玉蘭酒店) in Shanghai in the second quarter of 2012 and a restaurant next to Novotel Shenzhen Watergate Hotel (深圳諾富特萬德酒店) in Shenzhen in the third quarter of 2012. Brand differentiation strategy is also critical to tap high-end customers. The Group will use its "Tang's Cuisine" (唐宮壹號) to penetrate into high-end hotels like Shanghai Marriott Hotel Hongqiao and Venetian Macao Resort Hotel. In the second quarter of 2012, the Group will renovate its existing restaurant in Haoyuan Jianguo Garden Hotel (好苑建國酒店) located at Chang An Street in Beijing, re-branding it from "Tang Palace Seafood Restaurant" to "Tang's Cuisine" to escalate its image. In China, the world class hotel groups are never ending in building their niche theme hotels in the past decade. Our intimate cooperation with branded hotel groups definitely benefits us from securing high-end spending customers from business and corporate sectors, escalating our Chinese restaurant image and easily spreading through the whole China following the network expansion of those branded hotel groups.

Currently, the Group continues to give greater efforts in fast food and casual dining segment. Pepper Lunch line is still our main focus and we plan to open shops in Beijing, Tianjin and Shanghai. Pursuant to the Prospectus, the Group will aim at opening and operating a total of 21 Pepper Lunch restaurants by the end of 2012. Location is the critical success factor. Our close cooperation with different mall management groups facilitates our search of better locations. Exploring various meat and food suppliers could help improve our operating margin. In the long run, the Group will aim at negotiating for a nationwide franchisee right so that we can elevate our marketing and promotional efforts from a regional to nationwide scale in China. With the Group's close relationship with different prestigious mall management groups coupled with ample years of successful experience of Pepper Lunch brand, in Asia Pacific region and Hong Kong, this type of fast food can easily be replicated to tap those young and white-collar with mid- to high-spending consumption power in Beijing, Tianjin and Shanghai where the Group currently has franchisee operating rights. Besides fast food line, the Group is exploring different venture partners or brand owners, in Mainland China or overseas, for different modes of cooperation in expanding their China blueprint, employing the Group's affluent China experience. The Group currently starts a dialogue with a renowned Asian catering group in bringing their brands of stylish catering into China, tapping the tremendous domestic consumption market in the PRC.

Following the easing of inflation and along with increasing wages of consumers in China, retail and catering sectors will become better in 2012. The Group will continue its centralized procurement strategies to cooperate with large credible suppliers and allow traceable sourcing of food. Frequently changing the mix of food ingredients and dishes will continue to improve operating margin. Exchanging more operating staff and cook with increasing number of hotel and tourism management school allows a stabilization of staff costs. Different realignment of procedures and department re-engineering plus widely usage of integrated ERP systems will help lower the headcount, saving staff related costs. Strategically cooperating with branded hotel chain groups and mall management groups can strike for a more optimal rent negotiation due to mutual trust and understanding. More than that, we can follow those branded hotel groups or mall management groups to bring the brand of "Tang Palace" (唐宮) overseas to exploit different opportunities in the long run apart from the massive 1.3 billion China consumer base. The Group believes that the year of 2012 will be a challenging year globally due to adverse impact from continuing global financial crunch but also a fruitful year for the Group as its market share in operating Chinese restaurant inside chain hotels keeps increasing and we plan to have our cost curbing strategies fully implemented in the upcoming year.

APPRECIATION

On behalf of the Board, I would like to extend my gratitude to the management and staff for their dedication in 2011. I also extend my appreciation to our customers, suppliers, business partners and government authorities for their continuous support. Ultimately, I express my deepest gratitude for those retailing investors and professional institutional investors, especially our cornerstone investors, for creating such a tremendous IPO. The Group continues to strive to achieve long-term business growth and optimize the value and returns for our shareholders.

Yip Shu Ming
Chairman

Hong Kong
28 March 2012

Management Discussion and Analysis

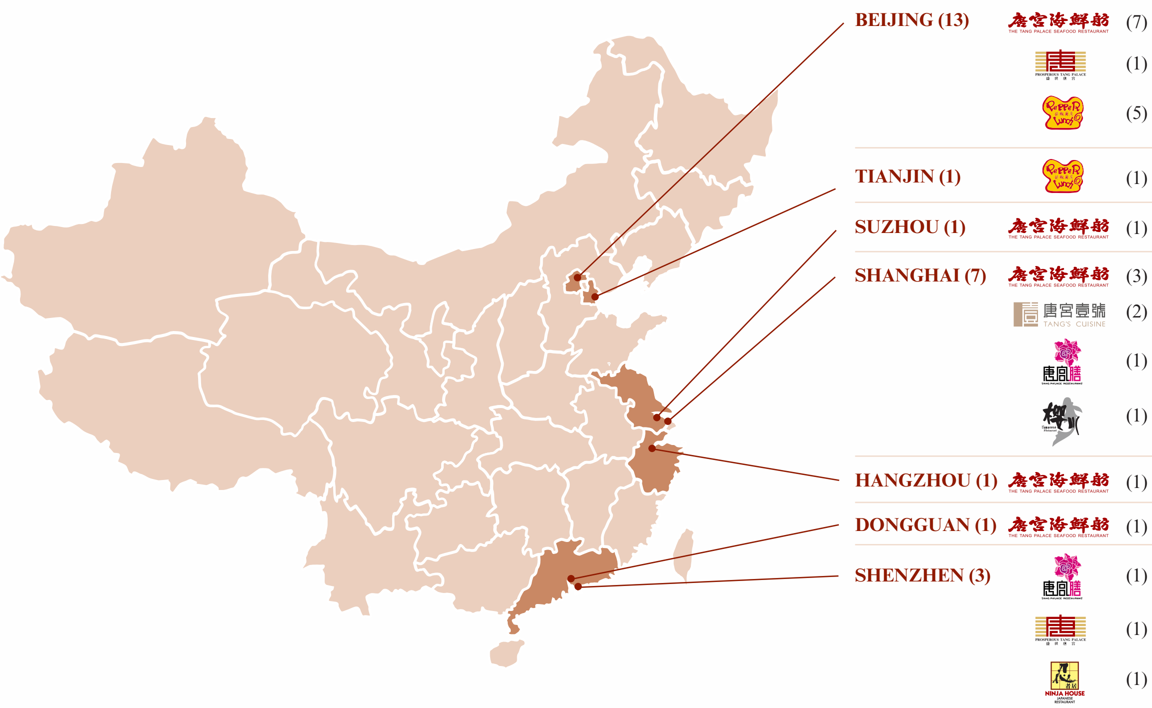
BUSINESS AND INDUSTRY ENVIRONMENT

With the likelihood of lingering post-crisis sluggishness in external demand from Europe and the United States, Mr. Wen Jiabao, the Premier of the PRC had drawn increasingly on the domestic demand of its massive 1.3 billion China consumers, especially private consumption, as the antidote to the instability of external demand in the country's 12th Five-year Plan (2011–2015) for retail sales. 2011 was the first year of 12th Five-year Plan and the PRC central government has employed different economic tools to orchestrate higher consumer spending and thus spur domestic demand, including (i) improving the social welfare network, (ii) boosting wages, (iii) creating new jobs, (iv) promoting urbanisation and supporting affordable housing, (v) adjusting taxes, and (vi) increasing consumer goods imports. At the same time, the 12th Five-Year Plan also hints at a further relaxation of the residential registration system, which would allow for the portability of benefits for China's large and rapidly expanding population of more than 135 million migrant workers. The PRC central government also announced tax relief in 2011 to lower the PRC individual income tax in the third quarter of 2011 and directly boosted domestic purchasing power, driving domestic consumption. China's urbanisation level was further lifted with 2011 urbanisation rate reaching 51.3%, which was 1.3 percentage points higher than that of 2010, according to the data of the National Bureau of Statistics of China. According to China's 12th Five-year Plan, the urbanisation rate of China will rise by over 0.8% on average annually in the coming years. The urbanisation process has boosted the consumption in retail business, including catering sector.

The consumer price index (CPI), measuring changes in the price level of consumer goods and services purchased by households, in the PRC had increased from the beginning of 2011 to a peak at 6.5% in August of 2011. Finally, the inflation rate in the PRC was gradually eased in the fourth quarter of 2011, and last reported at 4.2% in December 2011. As such, the general price increase in food ingredients and labor wage was considerably slowed down near the end of 2011. The PRC central government has newly announced an general inflation rate of 3.2% in February 2012 and emphasized in curbing inflation in 2012.

OPERATING REVIEW

MANAGEMENT DISCUSSION AND ANALYSIS



( ) = No. of Restaurants as at 31 December 2011

Tang Palace Seafood Restaurant
Tang's Cuisine
Tang Palace Restaurant
Sakuragawa Japanese Restaurant
Excellent Tang Palace
Pepper Lunch
Ninja House Japanese Restaurant

Multi-branding strategy

The Group has used the brand of "Tang's Cuisine" in five-stared hotels and highly prestigious shopping arcades to tap the high-end spending groups, operating two such restaurants by the end 2011. The brand of "Tang Palace Seafood Restaurant" has been used in three – to four-stared hotels and renowned shopping malls to capture mid – to high-end spending customers, cumulating a total of thirteen restaurants by the end of 2011. The Group has used "Excellent Tang Palace" for targeting the banqueting market, operating two such restaurants by the end of 2011. The brand of "Tang Palace Restaurant" has catered for friend's and family gatherings with two such restaurants operated by the end of 2011. "Pepper Lunch" brand is a fast food brand originated from Japan under a franchisee arrangement granted by the franchisor, namely SFBI (Asia-Pacific) Pte. Ltd., to tap young diners as well as white-collar group with the adoption of unique do-it-yourself (DIY) cooking method. Pepper Lunch fast food restaurants, having a total of six at the end of 2011, are normally opened inside large shopping malls in popular commercial districts.

The table below summarised, average spending per customer, and percentage of revenue contributed to the Group by major brands:

Major brands	Type	Average spending per customer for FY2011 RMB	FY2010 RMB	Percentage of revenue contributed to the Group FY2011	FY2010
Tang Palace Seafood Restaurant (唐宮海鮮舫)	Chinese cuisine	**151.8**	142.9	**67.2%**	66.6%
Tang's Cuisine (唐宮壹號)	Chinese cuisine	**305.4**	270.7	**10.1%**	9.6%
Excellent Tang Palace (盛世唐宮)	Chinese cuisine	**88.6**	80.5	**9.6%**	10.1%
Tang Palace Restaurant (唐宮膳)	Chinese cuisine	**99.4**	89.7	**9.7%**	11.4%
Pepper Lunch (胡椒廚房)	Fast food	**43.3**	35.8	**1.5%**	0.3%

Procurement and Logistics

It has been our target to strengthen our procurement system, especially in sourcing our raw materials. With the rapid raise in food prices in China, securing both the quantity and quality of food become a challenge for us. To ensure food quality and safety, we continue to establish long term relationship with reliable suppliers, like Metro Jinjiang Cash & Carry Co., Ltd. (錦江麥德龍現購自運有限公司普陀分部), while in the meantime seek for new co-operative partners. Currently, we have entered into framework agreements with leading businesses in agriculture, such as COFCO Food Sales & Distribution Co. Ltd. (中糧食品營銷有限公司) and Yihai Kerry Food Sales & Distribution Co., Ltd. (益海嘉里食品營銷有限公司), which will not only provide fine products at a competitive price, but also stablize the food supply with reliable and traceable origin.

Quality Control and 5S Management

We believe quality control is crucial to our business. Apart from central procurement which allows us to ensure food quality and hygiene, we also focus on monitoring our internal operation by adopting 5S Management in cuisines restaurant business. Since implementation, we manage to improve our overall efficiency on inventory control and storage, as well as maintaining a good hygiene and safe working environment and staff morale on abiding the system. In 2011, three of our restaurants from Guangdong, Shanghai and Beijing obtained the title 'ERS 5S Management Model Shop', which we obtained a high score of 85 and qualified as an exemplar for outsiders. We plan to intensify our 5S management system to accommodate our Group's future growth and development.

MANAGEMENT DISCUSSION AND ANALYSIS

Awards and Recognition

In 2011, we obtained awards and certifications in respect of our food, services and management. The following table sets forth our recent awards and certifications:

Award	Awarding and Issuing Authority
2010 National Top 100 Catering Services Award (2010年度中國餐飲百強企業)	China Cuisine Association (中國烹飪協會)
ERS 5S Management Model Shop (源全5S管理樣板店)	Hong Kong Environmental Resources and Safety Institute (香港環境資源及安全學會)
Modern Weekly Best Restaurants Selection 2010 (2010年度最佳潮粵菜餐廳獎)	Modern Weekly International (周末畫報)
Exemplar Restaurant in Beijing National Health Lifestyle Action (北京市全民健康生活方式行動示範餐廳)	Beijing Health Bureau/Beijing National Health Lifestyle Action Office (北京市衛生局、北京市全民健康生活方式行動辦公室)
Healthy Tasty Happy (HTH) Shop (健康美味愉快放心店)	Shanghai Restaurants Association (上海餐飲行業協會)
Five Stars National Premium Restaurant (國家五鑽級酒家)	National Restaurant and Hotel Grading Association (全國酒家酒店等級評定委員會)
Top 10 Most Influential Food & Beverage Brand in the PRC (中國餐飲行業十大影響力品牌)	Joint award by China United Business News, Brand Magazine, China Wisdom Engineering Association China Administration Institute, Chinese International Brand Association, CIKB (中國聯合商報社，品牌雜誌社，中國知會工程研究會，中國管理科學研究院，中國國際品牌學會，全國高科技產品品牌推進委員會)
2011 Exemplar Restaurant in Food Safety Compliance Management – Chang Ning District (2011年度長寧區餐飲服務食品安全規範化管理單位)	Shanghai Food and Drug Administration Bureau, Chang Ning Sub-Bureau (上海市食品監督管理局長寧分局)

FINANCIAL REVIEW

Revenue and segment performance

The Group's revenue recorded approximately RMB746.2 million for FY2011 (FY2010: RMB606.5 million), representing a year-on-year growth of about 23.0%. The increase in revenue of approximately RMB139.7 million was due to (i) opening of eight new restaurants in the PRC in 2011, including two Chinese cuisine shops, five Pepper Lunch fast food restaurants and one Japanese restaurant, which had contributed an aggregate of approximately RMB29.8 million, (ii) full year operation in 2011 of certain Chinese restaurants previously opened in 2010 and (iii) same store growth for certain Chinese restaurants in 2011.

Revenue from Northern China, Eastern China and Southern China were approximately RMB277.9 million, RMB363.6 million, and RMB130.8 million respectively for FY2011 (FY2010: RMB220.7 million, RMB292.5 million and RMB120.1 million respectively), showing year-on-year-growth rates of approximately 25.9%, 24.3% and 8.9% respectively. Revenue increase in Northern China in 2011 was mainly due to opening of two new restaurants coupled with same store sale growth. Revenue increase in Eastern China was mainly due to same store sale growth coupled with additional sale from full-year operation in 2011 of certain restaurants previously opened in 2010.

Other gains and losses

Other gains and losses increased by approximately RMB3.0 million, or by approximately 25.9%, from approximately RMB11.6 million for FY2010 to approximately RMB14.6 million for FY2011. The increase was mainly due to (i) an increase in commission from sales of tea-related products of approximately RMB1.1 million as the number of Chinese restaurants increased, (ii) an increase of approximately RMB0.6 million in bank interest income arising from depositing net proceeds from the Company's IPO in 2011, and (iii) an increase of approximately RMB1.2 million for tax incentives received from local government authorities.

Cost of inventories consumed and operating profit

Cost of inventories consumed increased by approximately RMB45.9 million, or by approximately 17.6%, from approximately RMB260.4 million for FY2010 to approximately RMB306.3 million for FY2011. The increase was mainly due to (i) the growth in revenue from existing restaurants, (ii) the opening of eight new restaurants, and (iii) full-year operation of certain Chinese cuisine restaurants and one Pepper Lunch fast food restaurant in 2011 which was previously opened in 2010.

The operating profit (defined as revenue less cost of inventories consumed) was approximately RMB439.9 million for FY2011 (FY2010: RMB346.1 million), representing a year-on-year growth of approximately 27.1%. The improvement in operating margin (defined as operating profit divided by revenue) from approximately 57.1% for FY2010 to approximately 58.9% for FY2011 was mainly due to: (i) effective centralized procurement and food mixing policies which came in place in 2011, lowering the cost of inventories consumed, and (ii) the inflationary pressure of major food items being eased from the third quarter of 2011 onwards.

Staff costs

Staff costs increased by approximately RMB39.8 million, or by approximately 29.8%, from approximately RMB133.3 million for FY2010 to approximately RMB173.1 million for FY2011. The increase in staff cost was primarily due to (i) an overall increase in the labor wages as a result of minimum wage adjustment and other staff benefits to retain experienced staff under the soaring inflationary environment from 2010 to 2011, (ii) an increase in staff related costs of approximately RMB7.3 million for new restaurants opened in 2011. As a percentage of our revenue, staff costs increased from approximately 22.0% for FY2010 to approximately 23.2% for FY2011 even under such fierce inflation due to our effective cost control from re-engineering of internal departments as well as effective staff exchange program conducted with vast hotel and tourism management schools across China.

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment increased by approximately RMB3.5 million, or by approximately 12.4%, from approximately RMB28.0 million for FY2010 to approximately RMB31.4 million for FY2011. The increase mainly represented depreciation expenses incurred in leasehold improvement and procurement of equipment and furniture for opening new restaurants during 2011. As a percentage of revenue, depreciation of property, plant and equipment decreased from approximately 4.6% for FY2010 to approximately 4.2% for FY2011.

Utilities and consumables

Utilities and consumables increased by approximately RMB8.6 million, or approximately 22.9%, from approximately RMB37.5 million for FY2010 to approximately RMB46.1 million for FY2011 due to the opening of new restaurants in 2011. As a percentage of revenue, utilities and consumables accounted for approximately 6.2% for FY2011 (FY2010: 6.2%).

Rental and related expenses

Rental and related expenses increased by approximately RMB15.6 million, or approximately by 34.4%, from approximately RMB45.3 million for FY2010 to approximately RMB60.9 million for FY2011. This amount included approximately RMB50.1 million as lease payment for FY2011 (FY2010: RMB36.4 million). The increase was mainly attributable to (i) the opening of two Chinese cuisine restaurants, five Pepper Lunch fast food restaurants and one Japanese restaurant in 2011 and (ii) full-year operation in 2011 of certain restaurants previously opened in 2010. As a percentage of revenue, lease payment accounted for approximately 6.7% for FY2011 (FY2010: 6.0%).

Other expenses

Other expenses, mainly comprising professional fees, sales and marketing expenses, administrative expenses, donations, bank charges and miscellaneous expenses, amounted to approximately RMB53.8 million for FY2011 compared to approximately RMB41.2 million for FY2010, showing an increase of 30.6%. The increase was mainly due to an increase of bank commission charges of approximately RMB2.2 million and marketing and promotional expense of RMB3.3 million for FY2011.

Income tax expense

Income tax expense increased by approximately RMB0.4 million, or by approximately 1.6%, from approximately RMB23.6 million for FY2010 to approximately RMB24.0 million for FY2011, mainly due to the recognition of approximately RMB13.7 million of one-off non-deductible listing and related expenses for FY2011 (FY2010: RMB2.1 million). The Group's effective income tax rate was lowered from approximately 33.7% for FY2010 to approximately 32.1% for FY2011.

Profit and total comprehensive income attributable to the Company and net margin

The profit and total comprehensive income attributable to owners of the Company for FY2011 increased by approximately RMB4.2 million, or by approximately 9.0%, from approximately RMB46.5 million for FY2010 to approximately RMB50.7 million for FY2011, mainly due to an increase in revenue and improvement in operating margin, partially offset the general increase in different operating costs due to inflation and one-off listing related expenses incurred for the Company's IPO in April 2011. The net profit margin before listing and related expenses, was approximately 8.6% for FY2011 compared to 8.0% for FY2010. After the deduction of listing and related expenses, the net profit margin became 6.8% for FY2011 compared to the 7.7% for FY2010.

Cash flow

Bank balances and cash increased by approximately RMB166.7 million from approximately RMB126.9 million as at 31 December 2010 to approximately RMB293.6 million as at 31 December 2011.

Net cash of approximately RMB94.2 million was generated from operating activities for FY2011. Net cash used in investing activities amounted to approximately RMB34.4 million for FY2011, of which approximately RMB35.4 million related to the purchase of property, plant and equipment for opening new restaurants.

Net cash provided from financing activities was approximately RMB106.9 million for FY2011, comprising principally the gross proceeds of approximately RMB159.3 million from the issue of new ordinary shares ("**Shares**") of HK$0.10 each in the capital of the Company's IPO in April 2011 at an offer price of HK$1.65 each, offset by the net repayment of bank loans of approximately RMB41.0 million.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's funding and treasury activities are managed and controlled by the senior management. Historically, the Group funded its liquidity and capital requirements principally through cash inflow from operating activities, and shareholders' financing as well as bank borrowings. Following the Company's IPO in April 2011, the Group funds its liquidity and capital requirements by the net proceeds from the IPO as well as internal resources.

The Group maintained cash and bank balances of approximately RMB293.6 million as at 31 December 2011 (as at 31 December 2010: RMB126.9 million). As at 31 December 2011, the Group's total assets, net current assets and net assets were approximately RMB455.4 million (as at 31 December 2010: approximately RMB272.4 million), approximately RMB215.9 million (as at 31 December 2010: approximately RMB24.7 million) and approximately RMB339.3 million (as at 31 December 2010: approximately RMB138.2 million), respectively.

As at 31 December 2011, the Group's had no bank borrowings (as at 31 December 2010: approximately RMB41.0 million). The gearing ratio (total bank borrowing divided by total assets multiplied by 100%) was nil as at 31 December 2011 (as at 31 December 2010: approximately 15.1%).

As at 31 December 2011, the current ratio (current assets divided by current liabilities) was 2.9 (as at 31 December 2010: 1.2).

The Directors are of the opinion that the Group has sufficient working capital for the Group's operations and expansion in the near future.

FOREIGN CURRENCY EXPOSURE

The business operations of the Group's subsidiaries were conducted mainly in the PRC with revenues and expenses of the Group's subsidiaries denominated mainly in RMB. The Group's cash and bank deposits, including net proceeds from the Company's IPO, were denominated mainly in RMB, with some denominated in Hong Kong dollars. Any significant exchange rate fluctuations of Hong Kong dollars against RMB as the functional currency may have a financial impact to the Group.

As at 31 December 2011, the Directors considered the Group's foreign exchange risk to be insignificant. During the year under review, the Group did not use any financial instruments for hedging purposes.

CAPITAL COMMITMENTS

Our capital commitments were approximately RMB6.8 million and RMB3.4 million as at 31 December 2011 and 31 December 2010, respectively.

CHARGES ON GROUP'S ASSETS

As at 31 December 2011, the Group did not have any charges on its assets (as at 31 December 2010: nil).

CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any material contingent liabilities.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Pursuant to the group reorganisation ("**Group Reorganisation**") to rationalise the group structure of the Group in preparation for the listing, the Company became the holding company of the subsidiaries of the Company now comprising the Group since 25 March 2011. Details of the said reorganisation have been set out in the section headed "Statutory and General Information" in the Prospectus.

Save for the Group Reorganization, during the year under review, there was no other material acquisition or disposal of subsidiaries or associated companies of the Company.

NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2011, the Group had over 4,000 full-time employees in Hong Kong and the PRC. The Group recognises the importance of human resources to its success, therefore qualified and experienced personnel are recruited for expansion of new restaurants. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industrial practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes, share options and performance related bonus.

USE OF NET IPO PROCEEDS

The Company raised an aggregate net proceeds of approximately HK$164.2 million from the issuance of an aggregate of 115,000,000 Shares (including exercise of the over-allotment option) pursuant to the Company's IPO. Up to 31 December 2011, the Group has used part of the net proceeds pursuant to the IPO as follows:

	Net IPO proceeds			
Use of Proceeds	Available pursuant to the IPO (HK$ million)	Available pursuant to the IPO (RMB million equivalent)	Utilised during FY2011 (RMB million equivalent)	Unutilised as at 31 December 2011 (RMB million equivalent)
Opening of about 8 new Chinese restaurants in certain first-tier and second-tier cities in the PRC	89.7	75.0	9.0	66.0
Opening of about 19 Pepper Lunch fast food restaurants in certain first-tier cities in the PRC	47.9	40.1	4.5	35.6
Sales and marketing promotion and brand awareness activities in certain first-tier cities, including launching of promotional campaigns and conducting of market surveys	10.2	8.5	7.2	1.3
General working capital	16.4	13.7	13.7	–
Total	164.2	137.3	34.4	102.9

The remaining net proceeds are mainly placed in reputable financial institutions as short term deposits.

OTHER INFORMATION

Listing of Shares on the Stock Exchange

Trading of Shares on the Main Board of the Stock Exchange commenced on 19 April 2011. Immediately upon the listing, the total number of issued shares was 400,000,000 Shares.

As part of the IPO, the Company has granted to ICBC International Capital Limited, the sole global coordinator under the IPO, the over-allotment option (the "**Over-allotment Option**") to cover any over-allocation under the placing tranche of the IPO. On 19 April 2011, the Over-allotment Option was exercised in full pursuant to which additional 15,000,000 Shares were allotted and issued by the Company on 26 April 2011. Details of the exercise of the Over-allotment Option have been set out in the Company's announcement dated 20 April 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code for securities transactions by Directors on terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") in Appendix 10 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange. The Company has made specific enquiries to all the Directors and all the Directors confirmed that they have complied with the required standards set out in the Model Code during the period from the Listing Date up to 31 December 2011.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Biographies of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Yip Shu Ming (葉樹明先生), aged 56, is one of the founders of our Group and joined our Group in July 1992. Mr. Yip, also the chairman of the Company, was appointed as executive Director of the Company on 25 March 2011. He is responsible for our Group's overall corporate operations, planning and business development. Mr. Yip is also a director of certain subsidiaries of our Group. Mr. Yip has over 25 years of experience in restaurant business. He worked as general manager at Fortune City Restaurant (富城火鍋海鮮酒家), which operated in Hong Kong, from 1986 to 1995. Mr. Yip is a honorary founding president of Shenzhen Overseas Chinese International Association. Mr. Yip is a honorary president of The Hong Kong Federation of Restaurants & Related Trades Limited. He is a part-time consultant of the China Hotel Management Company Limited and a permanent honorary committee member of The Chinese General Chamber of Commerce. Apart from his interest in our Group, Mr. Yip is also one of the direct or indirect owners of (i) Well Excellent Development Limited ("**HK Well Excellent**"), an entity held by him for investment holding purpose and the licenser under the trademark transfer and license agreements as disclosed under the section headed "Continuing Connected Transactions" of the Prospectus, and (ii) Meco Group Company Limited ("**Meco Group**") and Dongguan Well Excellent Hotel Management Services Co., Ltd. (東莞維華酒店管理服務有限公司) ("**Dongguan Well Excellent**" or "**DGWE**"), two entities held by him for property investment and property leasing businesses and the lessors under various tenancy agreements (collectively, "**CCT Tenancy Agreements**") as disclosed under the section headed "Directors' Report – Continuing Connected Transactions" in this annual report. Mr. Yip is the father of Mr. Yip Ka Fai, a member of the senior management of our Group.

Mr. Chan Man Wai (陳文偉先生), aged 57, is one of the founders of our Group and has been with our Group since its establishment in July 1992. Mr. Chan, also the vice chairman of the Company, was appointed as an executive Director of the Company on 11 March 2010. He is responsible for our Group's overall corporate strategic development. Mr. Chan is also a director of certain subsidiaries of the Group. He has over 28 years of experience in restaurant business. Prior to the establishment of Meco Petrochemical Limited in 1992, he co-owned and operated with others the restaurants Fortune Flower Grill and Lounge and Fortune City Restaurant (富城火鍋海鮮酒家) in Hong Kong between 1983 and 1996. Apart from his interest in the Group, Mr. Chan is also one of the direct or indirect owners of (i) HK Well Excellent, an entity held by him for investment holding purpose and the licenser under the trademark transfer and license agreements as disclosed under the section headed "Continuing Connected Transactions" of the Prospectus, and (ii) Meco Group and Dongguan Well Excellent, two entities held by him for property investment and property leasing businesses and the lessors under the CCT Tenancy Agreements as disclosed under the section headed "Directors' Report – Continuing Connected Transactions" in this annual report.

Ms. Weng Peihe (翁培禾女士), aged 41, was appointed as executive Director on 25 March 2011 and has been the chief executive officer of our Group since March 2000. She joined our Group in January 1997 and worked as senior manager to general manager from January 1997 to February 2000. Ms. Weng is primarily responsible for overseeing our Group's business development, market development, human resources, administration and logistics management. Ms. Weng has over 20 years of experience in the restaurant industry. Prior to joining the Group, she was engaged by Dragon Hotel, managed by New World Hotels International (杭州新世界黃龍酒店) in 1988.

Ms. Weng was awarded Excellent Female Entrepreneur in China Hospitality Industry (全國飯店業優秀女企業家) by the China Hotel Association (中國飯店協會) and China Finance, Commerce, Light, Textile and Tobacco Trade Union (中國財貿輕紡煙草工會) jointly in 2004. She was elected as one of the 2009–2010 China Hotel Industry 100 Elites (中華英才百福榜) and awarded the Platinum Five-Star Medal (中華英才白金五星勛章) by the China Hotel Industry Annual Conference Organizing Committee (中國飯店業年會組織委員會) in March 2010. Ms. Weng was awarded as one of the Outstanding Entrepreneur in China Brand Development for 2010 (中國品牌建設十大傑出企業家) jointly by China United Business News (中國聯合商報社), Brand Magazine (品牌雜誌社), China Wisdom Engineering Association (中國智慧工程研究會), China Academy of Management Science (中國管理科學研究院), China International Brand Academy (中國國際品牌學會) and National High Technology Industry Brand Academy (全國高科技產業品牌推進委員會) in January 2011. Ms. Weng was also awarded as one of the Outstanding Female Entrepreneur in Shanghai Restaurant Industry (上海餐飲業傑出女企業家), jointly by China Hotel Association (中國飯店協會) and Shanghai Restaurant Association (上海餐飲行業協會) in December 2011. Ms. Weng completed the Certificate in Chinese Restaurant Management Course (酒樓管理課程) at the Hong Kong Institute of Vocational Education in 2002 and the International Business Management CEO course (企業管理國際化總裁(CEO)班) at the Center for Overseas Academic and Cultural Exchanges, Tsinghua University (清華大學對外學術文化交流中心) in November 2005. She is currently studying for an executive master's degree in business administration at Peking University HSBC School of Business.

Mr. Ku Hok Chiu (古學超先生), aged 66, is one of the founders of our Group, and was appointed as executive Director of the Company on 25 March 2011. Mr. Ku joined our Group as a shareholder of Meco Petrochemical Limited since May 1996 and became a director of Shenzhen Tang Palace F&B Co., Ltd (深圳唐宮膳飲食有限公司) in July 1998. He is responsible for our Group's overall corporate strategic development. Mr. Ku has over 26 years of experience in restaurant business. Prior to joining the Group, he was one of the indirect owners of Datong Restaurant (大同酒家), which operated in the PRC, from 1985 to 1997.

Mr. Ku is also engaged in kitchen equipment business in the PRC through Chiu Kwun Engineering (Shenzhen) Co., Ltd. (超群廚具金屬製品（深圳）有限公司) ("**Chiu Kwun**"), involving manufacture, sale, installation and maintenance of kitchen equipment and provision of consultancy services related to kitchen equipment and kitchen layout. Apart from his interest in the Group, Mr. Ku is also (i) one of the direct or indirect owners of HK Well Excellent, an entity held by him for investment holding purpose and the licenser under the trademark transfer and license agreements as disclosed under the section headed "Continuing Connected Transactions" of the Prospectus, (ii) one of the shareholders of Meco Group and Dongguan Well Excellent respectively, two entities used by him for property investment and property leasing and the lessors under the CCT Tenancy Agreements as disclosed under the section headed "Directors' Report – Continuing Connected Transactions" in this annual report; and (iii) the indirect sole owner of Chiu Kwun, an entity held by him as the supplier and service provider under the master agreement ("**Master Agreement**") as disclosed under the section headed "Directors' Report – Continuing Connected Transactions" in this annual report.

Independent Non-Executive Directors

Mr. Kwong Chi Keung (鄺志強先生), *JP* (Justice of Peace), aged 57, was appointed as our independent non-executive Director on 25 March 2011. Mr. Kwong is qualified as a solicitor in Hong Kong, England, Australia (Victoria) and Singapore. He is a senior partner of Messrs. Sit Fung Kwong and Shum. Mr. Kwong had been an independent non-executive director of (i) Sparkle Roll Group Limited (formerly known as Global Food Culture Group Limited, Jade Dynasty Food Culture Group Limited and Jade Dynasty Group Limited respectively) (Stock Code: 970), a company listed on the Main Board of the Stock Exchange, from August 2002 to October 2007 and (ii) Hang Ten Group Holdings Limited (Stock Code: 448), a company which had been listed on the Main Board of the Stock Exchange until it was delisted with effect from 20 March 2012, since October 2002. Mr. Kwong was a former Deputy Chairman of the Copyright Tribunal of Hong Kong and a member of the Administrative Appeals Board and Panel of Inland Revenue Board of Review. Mr. Kwong is currently a senior vice president of the Asian Patent Attorneys Association, a World Intellectual Property Organization appointed Neutral for Alternative Dispute Resolution and Uniform Domain Name Dispute Resolution Policy Panelist, fellow of the Chartered Institute of Arbitrators (London) and Hong Kong Institute of Arbitrators, a Chartered Arbitrator, Center for Effective Dispute Resolution Accredited Mediator, and a Notary Public. He is a listed Arbitrator and Adjudicator of the Hong Kong International Arbitration Center.

Mr. Kwong obtained a bachelor's degree in laws (LLB) in November 1976 and a postgraduate certificate in laws (PCLL) in July 1977, both from the University of Hong Kong.

Mr. Kwong Ping Man (鄺炳文先生), aged 47, was appointed as an independent non-executive Director of the Company on 25 March 2011. Mr. Kwong has over 14 years of experience in accounting and administration and is currently a director of O'Park Corporate Services Limited. He had previously worked as accountant, company secretary and chief financial officer at private companies for over 8 years. Mr. Kwong had worked as financial controller and company secretary of Polyard Petroleum International Group Limited (formerly known as Kanstar Environmental Paper Products Holdings Limited) (Stock Code: 8011) from March 2006 to July 2007 and Karce International Holdings Company Limited (Stock Code: 1159) from June 2008 to January 2009, both of which are listed on the Main Board of the Stock Exchange.

Mr. Kwong had been an independent non-executive director of Yueshou Environmental Holdings Limited (formerly known as China Rich Holdings Limited) (Stock Code: 1191), a company listed on the Main Board of the Stock Exchange, since July 2007 until he retired from his office in December 2011. He has been an independent non-executive director of Century Sunshine Group Holdings Limited (Stock Code: 509) (formerly known as Century Sunshine Ecological Technology Holdings Ltd. (Stock Code: 8276)) since September 2004, a company listed on the Growth Enterprise Market of the Stock Exchange until its listing was transferred to the Main Board of the Stock Exchange on 1 August 2008. Mr. Kwong has also been an independent non-executive director of Mitsumaru East Kit (Holdings) Limited (Stock Code: 2358) since March 2009, a company listed on the Main Board of the Stock Exchange.

Mr. Kwong obtained a bachelor's degree in commerce accounting from Curtin University of Technology in Australia in August 1996, a Postgraduate diploma in corporate administration (part-time) from the Hong Kong Polytechnic University in November 1998 and a master's degree in professional accounting from the Hong Kong Polytechnic University in November 2003. He is a certified practicing accountant of the Australian Society of Certified Practicing Accountants (now known as CPA Australia), an associate member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries & Administrators respectively.

Mr. Cheung Kin Ting Alfred (張堅庭先生), aged 56, was appointed as our independent non-executive Director of the Company on 25 March 2011. Mr. Cheung has over 9 years of experience in the Chinese-style fast food restaurant industry in Hong Kong. From 2002 to 2009, he co-owned and operated with others the Chinese-style fast food restaurants Cousin Cousin Cafe (表哥茶餐廳) in Hong Kong. Currently, Mr. Cheung has licensed the trade name of aforesaid Chinese-style fast food restaurants to other independent third parties in the PRC at no charge. Since 2004, Mr. Cheung has been engaged in the provision of corporate training on communication skills, interpersonal skills and team building to corporations, including corporations in the restaurant industry. He is also a film director, script-writer and producer.

He obtained a Diploma of Arts in Chinese Language Literature from the Hong Kong Baptist College (now known as Hong Kong Baptist University) in June 1979 and an Executive Master of Business Administration from The Hong Kong University of Science and Technology in May 2009.

SENIOR MANAGEMENT

Mr. Leung Wai Chuen (梁偉泉先生), aged 46, is the chief financial officer and company secretary of our Company. He joined our Group on June 2009 as chief financial officer and was appointed as company secretary on 25 March 2011. Mr. Leung is responsible for overseeing the financial management, investor relations and company secretarial functions. Mr. Leung has over 22 years of experience in auditing, accounting and financial management. He previously worked at the audit department of Price Waterhouse (now known as PricewaterhouseCoopers) from August 1989 to July 1992. He then held senior finance/audit positions in several private companies from July 1992 to March 2000. He had also worked for companies listed on the Stock Exchange, as an accountant at China Overseas Land & Investment Limited (Stock Code: 688) from May 2000 to September 2001 and financial controller at WLS Holdings Limited (Stock Code: 8021) from December 2001 to December 2004. He then joined Sinobest Technology Holdings Ltd, a company listed on Main Board of the Singapore Exchange Limited, as chief financial officer from May 2005 to August 2008. He worked for Neo-Neon Holdings Limited (Stock Code: 1868), a company listed on the Main Board of the Stock Exchange, as financial controller from December 2008 to May 2009, as company secretary from February 2009 to May 2009, and as a non-executive Director from June 2009 to September 2010. He was also an independent director at Infosmart Group, Inc., a company listed on the Over-The-Counter Bulletin Board in the United States of America, from July 2007 to July 2009.

Mr. Leung obtained a bachelor's degree in social sciences from the University of Hong Kong in December 1989, a master's degree in business administration jointly awarded by The University of Wales and The University of Manchester jointly in July 2001 through distance learning and a master's degree in business (logistics management) from Royal Melbourne Institute of Technology (now known as RMIT University) in September 2007. He is a practicing member of the Hong Kong Institute of Certified Public Accountants, Fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Chartered Secretaries and Institute of Chartered Secretaries & Administrators respectively.

Mr. Chen Zhi Xiong (陳志雄先生), aged 41, is the chief operations officer of our Group. He has been with our Group since May 2000. Since April 2010, Mr. Chen has become the chief operations officer of our Group. He was an editor on the China Hotel and Catering Industry Book Series Editorial Board (中國飯店與餐飲業系列叢書編輯委員會) from May 2005, honorary consultant to the Provincial and Hong Kong Gourmet Weekly (省港美食週刊) from March 2006 and chairman of the Expert Committee of Zhuhai Food & Beverage Association (珠海市餐飲協會) from June 2006. He was accredited as China Cooking Master (中國烹飪大師) by China Hotel Association (中國飯店協會) in 2003 and accredited National Judge Qualification (Hotel) – First Class (飯店業國家壹級評委資格) from China Hotel Association (中國飯店協會) in 2004. Mr. Chen was also awarded the group silver award in the 5th National Cooking Skills Competition in 2003 (第五屆全國烹飪技術比賽團體賽2003) by The Organizing Committee of the 5th National Cooking Skills Competition (第五屆全國烹飪技術比賽組織委員會), the Hong Kong, Guangdong and Macau Top Ten Chefs 2004 – Gold Award (2004年度粵港澳餐飲業十佳名廚金獎) by the Editorial Board of the Hong Kong, Guangdong and Macau Chefs Ceremony (粵港澳名廚大典編緝委員會) and the Quan Guo Shi Jia Jin Shao Jiang (全國十佳金勺獎) in the China Hotel System Service Skill Competition (首屆全國飯店系統服務技能比賽) by the China Hotel System Service Skill Competition (Zhongnan District) Organizing Committee (首屆全國飯店系統服務技能比賽(中南賽區)組委會) in 2005. He obtained a certificate from the Nutritional Occupational Skills Testing Authority of the Ministry of Labor and Social Security for passing the tests for nutritionist (營養配餐員) and Chinese cook (中式烹調師) in December 2005 and June 2007 respectively. In 2006, he was awarded a Diploma of Membership by Les Amis d'Escoffier Society, Inc. (now known as Les Amis d'Escoffier Society of New York, Inc.) as Honorary Chairman (名譽會長). Mr. Chen completed the ERS 5S Management Certificate Course from the Hong Kong Environmental Resource and Safety Institute in April 2009.

Mr. Liu Shu Feng (劉樹峰先生), aged 43, is the general manager of the engineering department (工程部總經理) of our Group. He has been with our Group since 1997. He worked as manager of the finance department of the Guangdong region (廣東區財務部經理) from 1997 to 2008; manager of the procurement department of the Guangdong region (廣東區採購部經理) from 1997 to 2004 and as a restaurant manager at one of our Group's restaurants from 2004 to 2005. Since 2008, Mr. Lau has been the general manager of the engineering department (工程部總經理) of our Group. Prior to joining our Group, he worked at 深圳友誼富城火焗海鮮酒家 in the PRC from 1994 to 1996.

Mr. Yip Ka Fai (葉家輝先生) ("**Mr. KF Yip**"), aged 30, is the general manager of Vital Pepper (Beijing) Management Co., Ltd. and a director of Pepper Lunch (Shanghai) F&B Management Co., Ltd (活力胡椒(上海)餐飲管理有限公司). He joined the administration department of our Group in August 2008. Mr. KF Yip worked at Tao Heung Group Limited as assistant, business management from August 2007 to July 2008. Mr. KF Yip was awarded the Professional Diploma in Chinese Catering Management by the Vocational Training Council in July 2008. Mr. KF Yip is the son of Mr. Yip, one of our executive Directors.

Ms. Li Yan (李雁小姐), aged 37, is the head of the human resources department (人力資源總監) of our Group. She has been with our Group since March 2008 and worked as general manager of the human resources department from March 2008 to March 2010. Ms. Li has been the head of the human resources department (人力資源總監) of our Group since April 2010. Prior to joining our Group, she worked as customer service officer, trainer, training manager to senior training manager at TIPTOP Consultants Ltd (天高管理有限公司) from 2001 to 2007. Ms. Li graduated from the East China University of Science and Technology (華東理工大學) with a master's degree in engineering (majoring in inorganic non-metallic materials (無機非金屬材料學科) in June 1998.

Corporate Governance Report

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board believes that sound and good corporate governance practices are not only key elements in enhancing investor confidence and the Company's accountability and transparency but also important to the Company's long-term success. The Board, therefore, strives to attain and maintain effective corporate governance practices and procedures. The code provisions (the "**Code Provisions**") in the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules has only become applicable to the Company since Listing Date. The Company had complied with the Code Provisions during the period from the Listing Date up to 31 December 2011.

BOARD OF DIRECTORS

The Board is in charge of the task of maximizing the financial performance of the Group and making decisions in the best interest of the Company. The Board is responsible for formulating business policies and strategies, monitoring the performance of the senior management of the Company, adopting and monitoring internal business and management control, approving and monitoring annual budgets and business plans, reviewing operational and financial performance, considering dividend policy, reviewing and monitoring the Company's systems of financial control and risk management. The Board has delegated the day-to-day management, administration and operation of the Group and implementation and execution of Board policies and strategies to the executive Directors and management of the Company.

As at 31 December 2011, the Board consists of seven members, including four executive Directors, Mr. Yip Shu Ming (Chairman), Mr. Chan Man Wai (Vice-Chairman), Ms. Weng Peihe (Chief Executive Officer), Mr. Ku Hok Chiu and three independent non-executive Directors, Mr. Kwong Ping Man, Mr. Kwong Chi Keung and Mr. Cheung Kin Ting Alfred. Biographical details of each of the Directors are set out on pages 24 to 27. There is no family or other material relationship among members of the Board.

All executive Directors have entered into service contracts with the Company for a specific term of three years commencing from 25 March 2011, which shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months' written notice expiring at the end of the initial term of their appointment or any time thereafter to the other.

In compliance with Rule 3.10 of the Listing Rules, the Company has appointed three independent non-executive Directors, one of whom has appropriate professional qualifications in accounting and financial management. All the independent non-executive Directors have confirmed in writing to the Company that they have met all the guidelines for assessing their independence as set out in rule 3.13 of the Listing Rules. All independent non-executive Directors have entered into letters of appointment with the Company for a specific term of two years commencing from 25 March 2011, which shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party giving not less than one month's written notice expiring at the end of the initial term of their appointment or any time thereafter to the other.

One-third of the Directors are subject to retirement from office by rotation at the annual general meeting provided that every Director shall be subject to retirement by rotation at least once every three years in accordance with the articles of association of the Company ("**Articles of Association**").

All Directors, including independent non-executive Directors, have given sufficient time and effort to the affairs of the Group. Independent non-executive Directors have provided the Board with their diversified expertise, experience and professional advice. The Board believes that the ratio between executive Directors and independent non-executive Directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of shareholders of the Company and of the Group. The Board also believes that the views and participation of the independent non-executive Directors in the Board and committee meetings provide independent judgment on the issues relating to strategy, performance, conflict of interest and management process to ensure that the interests of all shareholders of the Company are considered and safeguarded.

All Directors have full and timely access to all relevant information in relation to the Group's businesses and affairs as well as unrestricted access to the advice and services of the company secretary, who is responsible for providing Directors with board papers and related materials. The Directors may seek independent professional advice at the Company's expenses in carrying out their duties and responsibilities.

The Company has subscribed appropriate and sufficient insurance coverage on Directors' liabilities in respect of legal actions taken against Directors arising out of corporate activities.

During the period from the Listing Date up to 31 December 2011, the Board held three regular Board meetings. At these regular Board meetings, Directors discussed and exchanged their views on significant issues and general operations of the Group, formulated business policies and strategies, reviewed the financial performance and approved the interim result of the Company for the six months ended 30 June 2011.

The Board, through the audit committee, has conducted a review of the effectiveness of the Group's internal control systems for the year ended 31 December 2011 covering all material financial, operational and compliance controls and risk management functions, and is satisfied that such systems are effective and adequate.

Attendance of the individual Directors at the regular Board meetings is set out as follows:

Directors	**Meetings Attended/Total**
Executive Directors	
Mr. Yip Shu Ming *(Chairman)*	3/3
Mr. Chan Man Wai *(Vice-chairman)*	3/3
Ms. Weng Peihe *(Chief Executive Officer)*	3/3
Mr. Ku Hok Chiu	3/3
Independent Non-Executive Directors	
Mr. Kwong Ping Man	3/3
Mr. Kwong Chi Keung	3/3
Mr. Cheung Kin Ting Alfred	3/3

At least 14 days' notice prior to the date of regular Board meeting is given to all Directors and an agenda together with board papers are sent to all Directors no less than three days before the date of regular Board meeting. All Directors are given opportunity to include in the agenda any other matter that they would like to discuss in the meeting. With respect to the Board committee meeting, reasonable prior notice is given to all committee members. All Directors and committee members of the Board committee are urged to attend the Board meeting and Board committee meeting in person. For the Directors and committee members, who are unable to attend the meeting, participation through electronic means will be arranged and available.

Should a director has a potential conflict of interest in a matter being considered in the Board meeting, he will be abstained from voting. Independent non-executive Directors with no conflict of interest will be present at meetings dealing with such conflict of interest issues.

The company secretary assists the chairman of the Board in preparation of the agenda for the Board meeting and Board committee meeting and ensures that all applicable rules and regulations regarding the Board meeting are followed. He also prepares and keeps detailed minutes of each Board meeting and Board committee meeting. Within a reasonable time after each meeting, the draft minutes are circulated to all Directors or committee members for comment and the final and approved version of minutes is sent to all Directors or committee members for their records. Board committees, including the audit committee, nomination committee and remuneration committee, all follow the applicable principles, practices and procedures used in Board meetings.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Yip Shu Ming is the chairman of the Board and Ms. Weng Peihe is the chief executive officer of the Company, in compliance with the Code Provision A.2.1 of Appendix 14 to the Listing Rules. The divisions of responsibilities between the chairman of the Board and the chief executive officer of the Company are clearly divided to ensure a balance of power and authority and to reinforce their independence and accountability.

Mr. Yip Shu Ming, being the chairman, is responsible for providing leadership to the Board and ensuring that the Board functions effectively; that Directors receive in timely manner adequate information which is complete and reliable and that all Directors are properly briefed on issues arising at Board meetings. The chairman also encourages Directors to participate actively in and to make a full contribution to the Board so that the Board acts in the best interest of the Company.

Ms. Weng Peihe, being the chief executive officer of the Company, is responsible for the daily operations of the Company, execution of business policies, strategies, objectives and plans as formulated and adopted by the Board and leading the management of the Company.

COMPLIANCE WITH MODEL CODE

The Company has adopted its own code for securities transactions by the Directors on terms no less exacting than those set out in the Model Code in Appendix 10 to the Listing Rules. The Company has made specific enquiries to all the Directors and all the Directors confirmed that they have complied with the required standards set out in the Model Code during the period from the Listing Date up to 31 December 2011.

COMPLIANCE WITH NON-COMPETE UNDERTAKING

The Company has received the confirmation from the controlling shareholders in respect of their compliance with the terms of the Non-complete Undertaking from the Listing Date to the date of this report.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparation of the financial statements for the financial year ended 31 December 2011 which are given a true and fair view of the state of affairs of the Company and of the Group as at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the applicable statutory requirements and accounting standards. The Directors, having made appropriate enquiries, confirm that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the external auditors of the Company acknowledging their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" contained in this annual report.

BOARD COMMITTEES

The Board has established three Board committees, namely audit committee, remuneration committee and nomination committee, to oversee the particular aspect of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties.

On 28 March 2012, the Board adopted the new sets of written terms of reference of each of the Board committees of the Company. The new sets of written terms of reference are in line with the amendments to the Listing Rules which became effective as of 1 April 2012. The new written terms of reference of each of the Board committees of the Company had been posted on the websites of the Stock Exchange and the Company on 30 March 2012.

AUDIT COMMITTEE AND ACCOUNTABILITY

The Company established an audit committee ("**Audit Committee**") with written terms of reference in compliance with Rule 3.21 of the Listing Rules pursuant to a resolution of our Directors passed on 25 March 2011. The Audit Committee comprises three members who are all independent non-executive Directors, namely Mr. Kwong Ping Man (the chairman), Mr. Kwong Chi Keung and Mr. Cheung Kin Ting Alfred. The Audit Committee reports to the Board and is delegated by the Board to assess matters related to the financial statements. Under its terms of reference, the Audit Committee is required to perform, amongst the others, the following duties:

- making recommendation to the Board on appointment, re-appointment and removal of external auditor and approving the remuneration and terms of engagement of that external auditor, and any questions of its resignation or dismissal;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- reviewing the Company financial controls, internal control and risk management systems;
- reviewing the Group's financial and accounting policies and practices;
- ensuring that management has performed its duty to have an effective internal control system; and
- monitoring the integrity of the Company's financial statements and annual reports and accounts and half-year report.

For the year ended 31 December 2011, two Audit Committee meetings were held and all minutes were kept by the company secretary. The Audit Committee has reviewed the accounting policies and practices adopted by the Company and the unaudited interim results and interim report of the Company for the six months ended 30 June 2011 as well as assessed the effectiveness of the Company's internal control and risk management systems. The Audit Committee reported that there was no material uncertainty that casts doubt on the Company's going concern ability.

Attendance of individual members of the Audit Committee at meetings for the year ended 31 December 2011 is set out as follows:

Committee Members	**Meetings Attended/Total**
Mr. Kwong Ping Man *(Chairman)*	2/2
Mr. Kwong Chi Keung	2/2
Mr. Cheung Kin Ting Alfred	2/2

AUDITORS' REMUNERATION

The remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

	Fee paid/payable	
	2011	2010
	RMB'000	RMB'000
Type of service		
Audit services	**2,646**	666
Total	**2,646**	666

No non-audit services were provided by the auditor of the Company during the year.

REMUNERATION COMMITTEE

The Company established a remuneration committee ("**Remuneration Committee**") on 25 March 2011 with written terms of reference in accordance with the Code Provisions in the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The principal responsibilities of the Remuneration Committee include but not limited to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group and ensure none of the Directors determine their own remuneration. The Remuneration Committee comprises three members who are all independent non-executive Directors, namely Mr. Kwong Chi Keung (the chairman), Mr. Kwong Ping Man and Mr. Cheung Kin Ting Alfred.

For the year ended 31 December 2011, one Remuneration Committee meeting was held to review the employment of senior management members and make recommendation to the Board. Apart from the above, members of the Remuneration Committee have reviewed the remuneration package of the Directors and the remuneration policies of the Company, which are determined with reference to the prevailing market practices.

Committee Members	**Meetings Attended/Total**
Mr. Kwong Chi Keung *(Chairman)*	1/1
Mr. Kwong Ping Man	1/1
Mr. Cheung Kin Ting Alfred	1/1

NOMINATION COMMITTEE

The Company established a nomination committee ("**Nomination Committee**") on 25 March 2011 with written terms of reference in accordance with the Recommended Best Practices as set out in Appendix 14 to the Listing Rules. The Nomination Committee is responsible for, including but not limited to, making recommendations to the Board regarding candidates to fill vacancies of the Board. The Nomination Committee comprises three members who are all independent non-executive Directors, namely Mr. Cheung Kin Ting Alfred (the chairman), Mr. Kwong Ping Man and Mr. Kwong Chi Keung.

In reviewing and recommending the appointment of new directors, the Nomination Committee would seek to identify the competencies required to enable the Board to fulfill its responsibilities. The resume or document of the nominee or candidate will be given to the Nomination Committee for consideration. The Nomination Committee has adopted a process for selection and appointment of new directors which provides the procedure for identification of potential candidates, evaluation of the suitability of the candidate based on his qualifications, skills knowledge, business and related experience, commitment, ability to contribute to the Board process and such qualities and attributes that may be required by the Board.

During the year ended 31 December 2011, one Nomination Committee meeting was held by the Nomination Committee, members of the Nomination Committee have reviewed the composition of the Board which is determined by Directors' skills and experience appropriate to the Company's business and the nomination policy of the Company.

Committee Members	**Meetings Attended/Total**
Mr. Cheung Kin Ting Alfred *(Chairman)*	1/1
Mr. Kwong Ping Man	1/1
Mr. Kwong Chi Keung	1/1

INTERNAL CONTROL

The Board is responsible for ensuring that sound and effective internal control systems are maintained within the Group. The Company has formed an internal control committee (the "**Internal Control Committee**") in January 2011, comprising the chief executive officer and chief financial officer of the Company, an external PRC legal counsel engaged by the Company in March 2011, and Mr. Kwong Ping Man (the independent non-executive Director, who possesses relevant experience to review and assess the effectiveness and adequacy of the Company's internal control measures on a quarterly basis). The Internal Control Committee is also responsible for the implementation of the remedial plans recommended by the internal audit department, so as to ensure our compliance with the Listing Rules and the relevant PRC laws and regulations. Any deficiencies noted during the review process will be addressed to the Board and the Audit Committee. The Company has also established an internal audit department in March 2011, which consisting of two members, the internal audit manager and internal audit supervisor of the Company. The internal audit manager is professionally qualified with relevant experience to monitor and oversee daily operation of internal control matters. The internal audit department will report to the Audit Committee to ensure operations in compliance with the applicable laws, rules and regulations, and recommend remedial plans to the Audit Committee.

The Company has engaged internal control advisors to conduct semi-annual review for at least one year after the listing. The review will focus on the status of implementation of the recommended remedial actions in areas where deficiencies and weaknesses were identified, the effectiveness of the Company's internal control measures implemented at each of its restaurants, and the standards and effectiveness of the Company's corporate governance, operations and management to ensure our compliance with the Listing Rules and the applicable PRC laws and regulations.

The Board and Audit Committee conducted a review and assessment of the effectiveness of the Company's internal control systems including financial, operational and compliance controls and risk management functions for the year ended 31 December 2011. The assessment was made by discussions with the management of the Company and its external and internal auditors. The Board are satisfied that the existing internal control system is adequate and effective in order to safeguard the Group's assets and shareholders' interests.

INVESTOR RELATIONS AND SHAREHOLDERS' COMMUNICATIONS

The Company understands the importance of maintaining effective mutual communication with its shareholders and values every opportunity to communicate with them. The Company has adopted a policy of disclosing clear and relevant information to shareholders through various channels in a timely manner. Annual and interim reports are printed and sent to all shareholders by post as requested. The Company has also complied with provisions of the Listing Rules by posting announcements, notices, annual reports, interim reports and shareholders' circulars on the websites of the Stock Exchange and the Company (http://www.tanggong.cn). Apart from these documents, press releases and newsletters are posted on the Company's website to enhance its transparency. Being constantly updated in a timely manner, the website also contains a wide range of additional information on Company's business activities.

In addition to publication of information, the annual general meeting of the Company provides a forum for communication between shareholders and Directors. The chairman of the Board in person chairs the annual general meeting to ensure shareholders' views are communicated to the Board. Moreover, the briefing on the Company's business and the questions and answer session at the annual general meeting allow shareholders to stay informed of the Group's strategies and goals.

In addition to the chairman of the Board, the chairman of the Board committees, or in their absence, other members of the respective committees and the external auditors of the Company, are available to answer any queries that shareholders may have. The chairman of the Board will propose separate resolutions for each issue to be considered at the annual general meeting.

The annual general meeting proceedings are reviewed from time to time to ensure that the Company follows best corporate governance practices and shareholders' rights are preserved. Notice of annual general meeting is delivered to all shareholders at least 20 clear business days prior to the date of the annual general meeting, setting out details of each proposed resolution and other relevant information. The procedures for demanding and conducting a poll will be explained by the chairman of the Board at the annual general meeting. Poll results are to be released by way of publication of an announcement.

Directors' Report

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2011.

CORPORATE REORGANISATION

The Company was incorporated as an exempted company and registered in Cayman Islands with limited liability under the Companies Law ("**Companies Law**"), Cap. 22 (Law 3 of 1961, as consolidated and revised) of Cayman Islands on 11 March 2010. Pursuant to the Group Reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's Shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 25 March 2011. Details of the Group Reorganisation were set out in the Section headed "Statutory and General Information" in Appendix V to the Prospectus. The Shares of the Company were listed on the Stock Exchange with effect from 19 April 2011.

PRINCIPAL ACTIVITY

The Company acts as an investment holding company. Activities of its principal subsidiaries are set out in note 31 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 60.

The Directors recommend the payment of a final dividend of HK$0.09 per share in respect of the year ended 31 December 2011 to the shareholders whose names appear on the register of members of the Company on 1 June 2012, amounting to approximately RMB30,366,000.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement of the shareholders to attend and vote at the Annual General Meeting to be held on 25 May 2012, the register of members of the Company will be closed from 21 May 2012 to 25 May 2012 (both days inclusive), during which period no transfer of share(s) will be effected. In order to be eligible to attend and vote at the Annual General Meeting, all transfers documents, accompanies by the relevant share certificates, must be lodged with Tricor Investor Services Limited, the branch share registrar and transfer office of the Company in Hong Kong, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 18 May 2012.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the Annual General Meeting. For the purpose of determining the entitlement of the shareholders to the final dividend for the year ended 31 December 2011 (if approved), the register of members of the Company will be closed from 31 May 2012 to 1 June 2012 (both days inclusive), during which period no transfer of share(s) will be effected. To be entitled to the final dividend for the year ended 31 December 2011 (if approved), all transfers documents, accompanies by the relevant share certificates, must be lodged with Tricor Investor Services Limited, the branch share registrar and transfer office of the Company in Hong Kong, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 30 May 2012.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last three financial years is set out on page 112 of this annual report. This summary does not form part of the audited financial statements of the Group for the year ended 31 December 2011.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group during the year are set out in Note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 23 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in the consolidated statement of changes in equity in the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's distributable reserves as at 31 December 2011, as calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to approximately RMB93,701,000. Under the Companies Law (2011 Revision) of the Cayman Islands and the provisions of the Company's Articles of Association, the share premium of the Company is distributable to its shareholders provided that immediately following the distribution or the payment of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.

CHARITABLE CONTRIBUTIONS

During the year, the Group had made charitable contributions amounted to approximately RMB720,000.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Mr. Yip Shu Ming (appointed on 25 March 2011)
Mr. Chan Man Wai (appointed on 11 March 2010)
Mr. Ku Hok Chiu (appointed on 25 March 2011)
Ms. Weng Peihe (appointed on 25 March 2011)

Independent Non-Executive Directors

Mr. Kwong Chi Keung (appointed on 25 March 2011)
Mr. Kwong Ping Man (appointed on 25 March 2011)
Mr. Cheung Kin Ting Alfred (appointed on 25 March 2011)

In accordance with the provisions of the Company's Articles of Association, Mr. Chan Man Wai, Mr. Kwong Ping Man and Mr. Cheung Kin Ting Alfred will retire as Directors by rotation and, being eligible, will offer themselves for re-election as Directors at the forthcoming Annual General Meeting.

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from Mr. Kwong Chi Keung, Mr. Kwong Ping Man and Mr. Cheung Kin Ting Alfred. As at the date of this report, the Company still considers these independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Yip Shu Ming, Mr. Chan Man Wai, Mr. Ku Hok Chiu and Ms. Weng Peihe, all being executive Directors, has entered into a service contract with the Company for an initial term of three years with effect from 25 March 2011, which shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months' written notice expiring at the end of the initial term of their appointment or any time thereafter to the other.

Each of Mr. Kwong Chi Keung, Mr. Kwong Ping Man and Mr. Cheung Kin Ting Alfred, all being independent non-executive Directors, has been appointed for an initial term of two years commencing from 25 March 2011, which shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party giving not less than one month's written notice expiring at the end of the initial term of their appointment or any time thereafter to the other. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors.

No director proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of our subsidiaries which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and senior management of the Group are disclosed in the section headed "Biographies of Directors and Senior Management" on pages 24 to 29 of this annual report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, the interests and short positions of the Directors and chief executive of the Company in the shares and underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

	Number of ordinary shares *(Note 1)*			
Name of Director	Beneficial Owners	Held by controlled corporation	Total	Percentage of the issued share capital of the Company
Ordinary shares of HK$0.1 each of the Company				
Mr. Yip Shu Ming	–	102,920,000 (L)(note 2)	102,920,000 (L)	24.80%
Mr. Chan Man Wai	–	147,000,000 (L)(note 3)	147,000,000 (L)	35.42%
Mr. Ku Hok Chiu	–	44,200,000 (L)(note 4)	44,200,000 (L)	10.65%
Ms. Weng Peihe	1,150,000 (L)	–	1,150,000 (L)	0.27%

Notes:

(1) The letter "L" denotes the Directors' long position in the shares of the Company or the relevant associated corporation.

(2) These Shares were held by Current Success Investments Limited, which is wholly owned by Mr. Yip Shu Ming. By virtue of the SFO, Mr. Yip is taken to be interested in the Shares held by Current Success Investments Limited.

(3) These Shares were held by Best Active Investments Limited, which is wholly owned by Mr. Chan Man Wai. By virtue of the SFO, Mr. Chan is taken to be interested in the Shares held by Best Active Investments Limited.

(4) These Shares were held by Bright Mind Investments Limited, which is wholly owned by Mr. Ku Hok Chiu. By virtue of the SFO, Mr. Ku is taken to be interested in the Shares held by Bright Mind Investments Limited.

Save as disclosed above, as at 31 December 2011, none of the Directors or chief executive of the Company had any interests or short position in the share, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEMES AND SHARE AWARD PLAN

(a) Pre-IPO Share Option Scheme

Pursuant to a written resolution passed on 25 March 2011 by all shareholders of the Company, the Company had adopted a pre-initial public offering share option scheme ("**Pre-IPO Share Option Scheme**"). On 25 March 2011, share options to subscribe for an aggregate of 4,000,000 Shares, subject to the terms and conditions stipulated under the Pre-IPO Share Option Scheme, were granted to 68 senior management and employees at a nominal consideration of HK$1 for each grant. The Directors confirmed that no further share options under the Pre-IPO Share Option Scheme has been or will be granted.

As at 31 December 2011, the number of options which remained outstanding under the Pre-IPO Share Option Scheme was 4,000,000 which, if exercised in full, represents approximately 1% of the enlarge share capital of the Company.

The following table disclosed movement in the Company's share options during the year:

	Vesting period	Exercisable period	Exercise price	As at 1 January 2010 and 31 December 2010	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 31 December 2011	Estimated option value per share
Tranche 1	25/03/2011–19/04/2012	20/04/2012–20/04/2015	HK$0.825	–	1,200,000	–	–	–	1,200,000	HK$1.0439
Tranche 2	25/03/2011–19/04/2013	20/04/2013–20/04/2015	HK$0.825	–	1,200,000	–	–	–	1,200,000	HK$1.0615
Tranche 3	25/03/2011–19/04/2014	20/04/2014–20/04/2015	HK$0.825	–	1,600,000	–	–	–	1,600,000	HK$1.0708
				–	4,000,000	–	–	–	4,000,000	

The fair value of the share options at the date of grant determined using the binomial option pricing model is approximately HK$4,240,000. The Group recognised a total expense of approximately HK$1,803,000 in relation to the options granted by the Company during the year.

(b) Share Option Scheme

By a written resolutions passed by all shareholders of the Company on 25 March 2011, the Company had adopted a share option scheme (the "**Share Options Scheme**"). Up to and as at 31 December 2011, no options have been granted or agreed to be granted pursuant to the Share Option Scheme. Summary of some of the principal terms of the Share Option Scheme are as follows:

(i) Purposes

The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Company. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Company to reward the employees, the Directors and other selected participants for their contributions to the Company.

(ii) Qualifying participants

The Directors may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

(aa) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which any member of the Company holds an equity interest;

(bb) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(cc) any supplier of goods or services to any member of the Company or any Invested Entity;

(dd) any customer of any member of the Company or any Invested Entity;

(ee) any person or entity that provides research, development or other technological support to any member of the Company or any Invested Entity;

(ff) any shareholder of any member of the Company or any Invested Entity or any holder of any securities issued by any member of the Company or any Invested Entity;

(gg) any advisor (professional or otherwise) or consultant to any area of business or business development of any member of the Company or any Invested Entity;

(hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Company;

and, for the purposes of the Share Option Scheme, the offer for the grant of option may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants.

(iii) Maximum number of shares

(aa) The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Company must not in aggregate exceed 30% of the share capital of the Company in issue from time to time.

(bb) The total number of the shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Company) to be granted under the Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 10% of the shares in issue on the Listing Date, being 40,000,000 Shares ("**General Scheme Limit**").

(cc) Subject to (aa) above but without prejudice to (dd) below, the Company may seek approval of the shareholders of the Company in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company must not exceed 10% of the Shares in issue as of the date of approval of the limit and, for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of the Company) previously granted under the Share Option Scheme and any other share option scheme of the Company will not be counted. The circular sent by the Company to its shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(dd) Subject to (aa) above and without prejudice to (cc) above, the Company may seek separate shareholders' of the Company approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the extended limit referred to in (cc) above to participants specifically identified by the Company before such approval is sought. In such event, the Company must send a circular to its shareholders containing a generic description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being ("**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by the shareholders of the Company in general meeting of the Company with such grantee and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted must be fixed before the approval of the shareholders of the Company and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(v) Time of acceptance and exercise of options

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of options is made, but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vi) Subscription price for the Shares and consideration for the option

The subscription price for the shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

(vii) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(c) Share Award Plan

The Company adopted a share award plan (the "**Share Award Plan**") on 25 March 2011 ("**Adoption Date**") pursuant to which the Board may, subject to and in accordance with the rules of the Share Award Plan, make an award of Shares to certain classes of eligible participants as specified in the Share Award Plan, as determined by the Board from time to time on the basis of the Board's opinion as to the proposed awardee's contribution and/or future contribution to the development and growth of the Group. The Shares and other trust fund for the implementation of the Share Award Plan shall be administered by a trustee or trustees (the "**Share Award Plan Trustee**") to be appointed by the Company.

Under the Share Award Plan, the Board shall determine the eligibility of the eligible participants and the number of shares to be awarded (the "**Awarded Shares**") and notify the Share Award Plan Trustee of the making of awards. The Share Award Plan Trustee shall then set aside the appropriate number of award Shares pending the transfer and vesting to the relevant participants out of a pool of Shares which shall comprise of, among others, Shares either (1) transferred to it from any person (other than the Group) by way of gift; (2) purchased by the Share Award Plan Trustee out of the funds received by the Share Award Plan Trustee by way of gift or for nominal consideration; (3) subscribed for or purchased by the Share Award Plan Trustee out of the funds allocated by the Board out of the Group's resources, subject to the terms and conditions of the rules of the Share Award Plan. The Share Award Plan Trustee may purchase Shares on the Stock Exchange at the prevailing market price or off the market. In respect of off-market transactions, purchases shall not be made with any connected person, nor shall the purchase price be higher than the lower of (1) the closing market price on the date of such purchase, and (2) the average closing market price for the five preceding trading days on which Shares of the Company were traded on the Stock Exchange. In any given financial year of the Company, the maximum numbers of Shares to be purchased by the Share Award Plan Trustee shall not exceed 10% of the total number of shares in issue of the Company at the beginning of such financial year. The Share Award Plan Trustee may also subscribe for new Shares at par or at such other subscription price as instructed by the Board out of the Group's contribution if the Board considers it appropriate to do so. The Company shall comply with the relevant Listing Rules when granting the Awarded Shares.

The legal and beneficial ownership of the relevant awarded Shares shall vest in the relevant selected participant within 10 business days after the latest of (1) the date specified on the notice of the award given by the Board to the Share Award Plan Trustee; and (2) where applicable, the date on which the condition(s) or performance target(s) (if any) to be attained by such selected participant as specified in the related notice of award have been attained and notified to the Share Award Plan Trustee by the Board in writing.

Unless early termination by the Board, the Share Award Plan shall be valid and effective for a term of 10 years commencing from the Adoption Date.

Up to and as at 31 December 2011, no Shares had been awarded under the Share Award Plan.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the interests or short positions of the persons (other than a Director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of shareholder	Nature of interest	Number of Shares held *(Note 1)*	Approximate shareholding percentage (%)
Current Success Investments Limited(note 2)	Beneficial owner	102,920,000 (L)	24.80%
Ms. Wong Sau Mui(note 2)	Interest of spouse	102,920,000 (L)	24.80%
Best Active Investments Limited(note 3)	Beneficial owner	147,000,000 (L)	35.42%
Ms. Au Yim Bing(note 3)	Interest of spouse	147,000,000 (L)	35.42%
Bright Mind Investments Limited(note 4)	Beneficial owner	44,200,000 (L)	10.65%
Ms. Ku Wai Man(note 4)	Interest of spouse	44,200,000 (L)	10.65%
Orchid Asia IV, L.P.(note 5) ("**Orchid LP**")	Beneficial owner	32,224,000 (L)	7.76%
OAIV Holdings, L.P.(note 5)	Interest of a controlled corporation	32,224,000 (L)	7.76%
Orchid Asia IV Group Management, Limited(note 5)	Interest of a controlled corporation	32,224,000 (L)	7.76%
Orchid Asia IV Group Limited(note 5)	Interest of a controlled corporation	32,224,000 (L)	7.76%
Orchid Asia IV Investment, Limited(note 5)	Interest of a controlled corporation	32,224,000 (L)	7.76%
YM Investment Limited(note 5)	Interest of a controlled corporation	32,788,000 (L)	7.90%
Ms. Lam Lai Ming(note 5)	Founder of a discretionary trust	32,788,000 (L)	7.90%

Name of shareholder	Nature of interest	Number of Shares held *(Note 1)*	Approximate shareholding percentage (%)
Mr. Li Gabriel(note 5)	Founder of a discretionary trust	32,788,000 (L)	7.90%
ManageCorp Limited(note 5)	Trustee	32,788,000 (L)	7.90%

Notes:

(1) The letter "L" denotes the shareholders' long position in the shares of the Company.

(2) These Shares were beneficially owned by Current Success Investments Limited, which was wholly owned by Mr. Yip Shu Ming. By virtue of the SFO. Mr. Yip is taken to be interested in the Shares held by Current Success Investments Limited. Ms. Wong Sau Mui is the spouse of Mr. Yip. Under the SFO, Ms. Wong is taken to be interested in the Shares in which Mr. Yip is interested.

(3) These Shares were beneficially owned by Best Active Investments Limited, which was wholly owned by Mr. Chan Man Wai. By virtue of the SFO, Mr. Chan is taken to be interested in the Shares held by Best Active Investments Limited. Ms. Au Yim Bing is the spouse of Mr. Chan. Under the SFO. Ms. Au is taken to be interested in the Shares in which Mr. Chan is interested.

(4) These Shares were beneficially owned by Bright Mind Investments Limited, which was wholly owned by Mr. Ku Hok Chiu. By virtue of the SFO, Mr. Ku is taken to be interested in the Shares held by Bright Mind Investments Limited. Ms. Ku Wai Man is the spouse of Mr. Ku. Under the SFO, Ms. Ku is taken to be interested in the Shares in which Mr. Ku is interested.

(5) So far as the Directors are aware of, these Shares were beneficially owned as to 32,224,000 Shares by Orchid Asia IV, L.P. and as to 564,000 Shares by Orchid Asia IV Co-investment, Limited. Orchid Asia IV, L.P. was wholly controlled by OAIV Holdings, L.P., which was in turn wholly controlled by Orchid Asia IV Group Management, Limited, which was in turn wholly controlled by Orchid Asia IV Group, Limited, which was in turn wholly controlled by Orchid Asia IV Investment, Limited, which was about 92.61% controlled by YM Investment Limited. Orchid Asia IV Co-investment, Limited was wholly controlled by YM Investment Limited. Under the SFO, OAIV Holdings, L.P., Orchid Asia IV Group Management, Limited, Orchid Asia IV Group, Limited, Orchid Asia IV Investment, Limited and YM Investment Limited were taken to be interested in the Shares beneficially owned by Orchid Asia IV, L.P., and YM Investment Limited was taken to be interested in the Shares beneficially owned by Orchid Asia IV Co-investment, Limited. Ms. Lam Lai Ming and Mr. Li Gabriel were also interested in YM Investment Limited through ManageCorp Limited as Trustee and were taken to be interested in the Shares in which YM Investment Limited was interested.

Save as disclosed above, as at 31 December 2011, no person (other than a Director or chief executive of the Company) had registered an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 29 to the consolidated financial statements and in the sections headed "History, Reorganization and Corporate Structure" of the Prospectus and "Directors' Report – Continuing Connected Transactions" in this annual report, no Director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party subsisted at the end of the year or at any time during the year.

CONTINUING CONNECTED TRANSACTIONS

During the year under review, the Group had conducted the following continuing connected transactions which were required to be disclosed pursuant to Rules 14A.45 and 14A.46 of the Listing Rules:

(a) CCT Tenancy Agreements

Meco Group, a company incorporated in Hong Kong with limited liability, is principally engaged in property investment. It is owned as to 50% by Mr. Chan Man Wai, 35% by Mr. Yip Shu Ming and 15% by Mr. Ku Hok Chiu. Dongguan Well Excellent, a company established in the PRC with limited liability, is principally engaged in property leasing. It is wholly owned by HK Well Excellent, an investment holding company incorporated in Hong Kong with limited liability and owned as to 50% by Mr. Chan Man Wai, 35% by Mr. Yip Shu Ming and 15% by Mr. Ku Hok Chiu. As Mr. Chan Man Wai, Mr. Yip Shu Ming and Mr. Ku Hok Chiu are the controlling shareholders of the Company and executive Directors, each of Meco Group and Dongguan Well Excellent is a connected person of the Company under the Listing Rules.

Pursuant to the CCT Tenancy Agreements entered into between the Group as lessee and Meco Group or (as the case may be) Dongguan Well Excellent as landlord, the Group agreed to lease the premises set out below for an initial term expiring on 31 December 2012, with an option for the Group to, subject to compliance with the relevant requirements under the Listing Rules, renew and extend the tenancy for successive terms of three years upon expiry of the then current term. The rent payable under the extended term shall not be higher than the then prevailing market rent and any increment for the extended term shall not exceed 20% of the rent payable under the then current term. Pursuant to the CCT Tenancy Agreements, the Group may terminate the relevant CCT Tenancy Agreement by serving not less than one month prior written notice to Meco Group or (as the case may be) Dongguan Well Excellent. The leased premises are used for operation of restaurant, training centre or ancillary office by the respective Group member.

Further details in relation to the premises leased from Meco Group are set out below:

S/N	Date of Agreement	(i) Location; and (ii) Use	Total rent payable under the CCT Tenancy Agreements *(Note 1)*	Terms	Term of lease
(1)	1 August 2010	(i) Units 2101, 2102, 2103, 2105, 2106, 2107 and 2108, Block H, Expo Square, Dongcheng District, Dongguan City, Guangdong Province, the PRC; (ii) Restaurant	1 August 2010 to 31 December 2012: RMB3,016,000	Monthly rent of RMB104,000 is payable by the Group to Meco Group in advance each month. Such rent is inclusive of rental tax and exclusive of water, electricity, telephone, television, heat, gas, property management, cleaning, internet, car park and indoor facilities maintenance fees.	1 August 2010 to 31 December 2012 (Note 2)
(2)	12 July 2010	(i) Units 2008, 2018, 2028, 2038, 2048, 2058, 2068, 2078, 2088, 2098, 2248, 2258, 2308, 2318, 2348, 2358, 2418, 2428, 2438, 2448, 2458, and 2468, Shenzhen Cinema, Zhonghai Commercial, 1 Xinyuan Road, Luohu District, Shenzhen, the PRC (ii) Restaurant	1 December 2010 to 31 December 2012: RMB1,577,060	No rent shall be payable for the period from 1 June 2010 to 30 November 2010. Commencing from 1 December 2010, monthly rent of RMB63,082.40 is payable by the Group to Meco Group in advance each month. Such rent is inclusive of rental tax and property management fees and exclusive of water, electricity, telephone, television, heat, gas, cleaning, internet, car park and indoor facilities maintenance fees.	1 June 2010 to 31 December 2012 (Note 2)
(3)	1 August 2010	(i) Units 3138, 3148, 3158, 3178, Level 3, Shenzhen Cinema, Zhonghai Commercial, 1 Xinyuan Road, Luohu District, Shenzhen, the PRC (ii) Training centre and ancillary office	1 August 2010 to 31 December 2012: RMB870,000	Monthly rent of RMB30,000 is payable by the Group to Meco Group in advance each month. Such rent is inclusive of rental tax and exclusive of water, electricity, telephone, television, heat, gas, property management, cleaning, internet, car park and indoor facilities maintenance fees.	1 August 2010 to 31 December 2012 (Note 2)

S/N	Date of Agreement	(i) Location; and (ii) Use	Total rent payable under the CCT Tenancy Agreements *(Note 1)*	Terms	Term of lease
(4)	3 September 2010	(i) Unit 4001, Shenzhen Cinema, Zhonghai Commercial, 1 Xinyuan Road, Luohu District, Shenzhen, the PRC (ii) Restaurant	1 August 2010 to 31 December 2012: RMB2,059,000	Monthly rent of RMB71,000 is payable by the Group to Meco Group in advance each month. Such rent is inclusive of rental tax and exclusive of water, electricity, telephone, television, heat, gas, property management, cleaning, internet, car park and indoor facilities maintenance fees.	1 August 2010 to 31 December 2012 (Note 2)
(5)	3 September 2010	(i) Unit 1 on Level 6, Shenzhen Cinema, Zhonghai Commercial, 1 Xinyuan Road, Luohu District, Shenzhen, the PRC (ii) Restaurant	1 August 2010 to 31 December 2012: RMB3,016,000	Monthly rent of RMB104,000 is payable by the Group to Meco Group in advance each month. Such rent is inclusive of rental tax and exclusive of water, electricity, telephone, television, heat, gas, property management, cleaning, internet, car park and indoor facilities maintenance fees.	1 August 2010 to 31 December 2012 (Note 2)

Further details in relation to the premises leased from Dongguan Well Excellent are set out below:

S/N	Date of Agreement	(i) Location; and (ii) Use	Total rent payable under the CCT Tenancy Agreements *(Note 1)*	Terms	Term of lease
(6)	1 August 2010	(i) Units 3106, 3107, 3108, 4106, 4107 and 4108, Block H, Expo Square, Dongcheng District, Donggu an City, Guangdong Province, the PRC (ii) Restaurant	1 August 2010 to 31 December 2012: RMB2,494,000	Monthly rent of RMB86,000 is payable by the Group to Dongguan Well Excellent each month. Such rent is inclusive of rental tax and exclusive of water, electricity, telephone, television, heat, gas, property management, cleaning, internet, car park and indoor facilities maintenance fees.	1 August 2010 to 31 December 2012 (Note 2)

Notes:

(1) The rent was arrived at after arm's length negotiations between the parties and determined by reference to the prevailing market rent of the premises.

(2) The lease agreements have an initial term expiring on 31 December 2012, with an option for the Group to, subject to compliance with the relevant requirements under the Listing Rules, renew and extend the tenancy for successive terms of three years upon expiry of the then current term.

(b) Master service agreement for the purchase, manufacture, installation and maintenance of kitchen equipment

Chiu Kwun, a company incorporated in the PRC with limited liability in April 1990, is principally engaged in the manufacture, sale, installation and maintenance of kitchen equipment and provision of consultancy services related to kitchen equipment and kitchen layout. It is indirectly wholly owned by Mr. Ku Hok Chiu. As Mr. Ku Hok Chiu is a controlling shareholder of the Company and executive Director, Chiu Kwun is a connected person of the Company under the Listing Rules.

On March 25, 2011, the Group entered into a master service agreement ("**Master Agreement**") with Chiu Kwun, pursuant to which the Group agreed to purchase new kitchen equipment from and engage Chiu Kwun for the manufacture, installation and maintenance of kitchen equipment on such terms and conditions and at such prices to be determined from time to time by the parties on case by case basis after arm's length negotiations. For each transaction under the Master Agreement, the parties shall enter into separate contract or order, provided that the terms and conditions of each contract or order shall be (a) on normal commercial terms; and (b) on terms which we consider to be no less favorable to the Group than terms offered by independent third parties suppliers to the Group for such products or services of comparable quality. The Master Agreement was entered into for a term expiring on 31 December 2013 unless terminated earlier by three months' written notice by either party.

As the design for Pepper Lunch restaurants requires the prior approval of SFBI (Asia-Pacific) Pte. Ltd., as franchisor, the Group has not engaged and do not intend to engage Chiu Kwun for provision of the above goods and services in respect of Pepper Lunch restaurants. The Directors estimate that the annual transaction amount payable by the Group to Chiu Kwun under the Master Agreement will not exceed RMB6.2 million, RMB7.5 million and RMB9.9 million for the years ending 31 December 2011, 2012 and 2013, respectively.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the continuing connected transactions disclosed in note 29 to the consolidated financial statements.

The independent non-executive Directors have reviewed and confirmed that the above continuing connected transactions undertaken by the Group were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole, as required in Rule 14A.37 of the Listing Rules.

Deloitte Touche Tohmatsu, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Deloitte Touche Tohmatsu have issued their unqualified letter containing their conclusions in respect of the continuing connected transactions disclosed in (a) and (b) above by the Group in accordance with the Listing Rules and confirming the matters as stated in Rule 14A.38 of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PENSION SCHEME

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group also operates a Mandatory Provident Fund Scheme ("**MPF Scheme**") for all its qualifying employees in Hong Kong. The assets of the MPF Schemes are held separately from those of the Group in funds under the control of trustees. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules.

The Group contributed approximately RMB15.3 million to the above mentioned schemes for the year ended 31 December 2011.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total sales for the year and aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases for the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence. The emoluments of the Directors are decided by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics. The Company has adopted a Pre-IPO Share Option Scheme, Share Option Scheme and Share Award Plan as an incentive to Directors and eligible employees, details of each of the schemes are set out in pages 43 to 47 in this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a prorate basis to existing shareholders.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the latest practicable date prior to the issue of this annual report.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group.

NON-COMPETE UNDERTAKING

On 25 March 2011, Mr. Chan Man Wai, Mr. Yip Shu Ming, Mr. Ku Hok Chiu, Best Active Investments Limited, Current Success Investments Limited and Bright Mind Investments Limited (collectively, the "**Controlling Shareholders**"), have given an irrevocable non-compete undertaking (the "**Non-compete Undertaking**") in favour of the Group pursuant to which each of them irrevocably, unconditionally, jointly and severally undertaken, among other matters, not to, directly or indirectly, carry on, invest in or be engaged in any business which would or may compete with the business of the Group. Details of the Non-compete Undertaking have been set out in the section headed "Relationship with our Controlling Shareholders" of the Prospectus.

The Non-compete Undertaking has become effective from the Listing Date.

The Company has received the confirmation from the Controlling Shareholders in respect of their compliance with the terms of the Non-compete Undertaking from the Listing Date to the date of this report.

The independent non-executive Directors had reviewed the compliance with and enforcement of the terms of the Non-compete Undertaking by the Controlling Shareholders from the Listing Date to the date of this report.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting policies, accounting standards and practices adopted by the Group and the consolidated financial statements and results of the Group for the year ended 31 December 2011.

AUDITOR

Messrs. Deloitte Touche Tohmatsu will retire and a resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
Yip Shu Ming
Chariman

Hong Kong
28 March 2012

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF TANG PALACE (CHINA) HOLDINGS LIMITED
唐宮(中國)控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tang Palace (China) Holdings Limited 唐宮(中國)控股有限公司 (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 60 to 111, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	**2011** **RMB'000**	2010 RMB'000
Revenue	7	**746,203**	606,529
Other gains and losses	8	**14,598**	11,564
Cost of inventories consumed		**(306,332)**	(260,384)
Staff costs		**(173,126)**	(133,338)
Depreciation of property, plant and equipment		**(31,405)**	(27,950)
Utilities and consumables		**(46,137)**	(37,455)
Rental and related expenses		**(60,937)**	(45,287)
Listing and related expenses		**(13,697)**	(2,098)
Other expenses		**(53,772)**	(41,242)
Finance costs		**(688)**	(204)
Profit before tax	9	**74,707**	70,135
Income tax expense	11	**(23,981)**	(23,604)
Profit and total comprehensive income for the year and attributable to owners of the Company		**50,726**	46,531
Earnings per share			
– Basic (RMB)	13	**0.133**	0.155
– Diluted (RMB)	13	**0.133**	0.155

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current Assets			
Property, plant and equipment	14	**98,860**	94,857
Intangible assets	15	**7,528**	7,792
Rental deposits		**13,367**	11,358
Deferred tax assets	22	**4,600**	947
		124,355	114,954
Current Assets			
Inventories	16	**20,151**	12,773
Trade and other receivables	17	**17,331**	17,273
Amount due from a related party	18	**–**	465
Bank balances and cash	19	**293,567**	126,902
		331,049	157,413
Current Liabilities			
Trade and other payables	20	**107,690**	85,098
Amount due to a related party	18	**100**	263
Tax payable		**7,405**	6,341
Bank borrowings	21	**–**	41,019
		115,195	132,721
Net Current Assets		**215,854**	24,692
Total Assets less Current Liabilities		**340,209**	139,646
Capital and Reserves			
Share capital	23	**34,853**	338
Reserves	24	**304,406**	137,906
Equity attributable to owners of the Company		**339,259**	138,224
Total Equity		**339,259**	138,224
Non-current Liability			
Deferred tax liability	22	**950**	1,402
		340,209	139,646

The consolidated financial statements on pages 60 to 111 were approved and authorised for issue by the board of directors on 28 March 2012 and are signed on its behalf by:

Yip Shu Ming
Director

Chan Man Wai
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners of the Company						
	Paid-in capital/ share capital RMB'000 (Note 23)	Share premium RMB'000	Statutory general reserve RMB'000 (Note 24)	Share options reserve RMB'000	Other reserve RMB'000 (Note 24)	Retained profits RMB'000	Total RMB'000
At 1 January 2010	35,131	–	15,430	–	1,955	26,264	78,780
Profit and total comprehensive income for the year	–	–	–	–	–	46,531	46,531
Dividend recognised as distribution *(note 12)*	–	–	–	–	–	(24,475)	(24,475)
Arising from Group Reorganisation	(34,793)	–	–	–	72,201	–	37,408
Transfer of reserves	–	–	1,981	–	–	(1,981)	–
At 31 December 2010	338	–	17,411	–	74,156	46,339	138,244
Profit and total comprehensive income for the year	–	–	–	–	–	50,726	50,726
Issue of shares pursuant to the Group Reorganisation *(note 23 (ii))*	(170)	–	–	–	170	–	–
Issue of shares at a premium through initial public offering *(note 23 (iv))*	8,398	130,165	–	–	–	–	138,563
Issue of shares by capitalisation of share premium account *(note 23 (iii))*	25,027	(25,027)	–	–	–	–	–
Issue of shares at a premium through exercise of the over-allotment option *(note 23 (v))*	1,260	19,526	–	–	–	–	20,786
Transaction costs attributable to issue of shares	–	(10,558)	–	–	–	–	(10,558)
Recognition of equity-settled share-based payments	–	–	–	1,498	–	–	1,498
Transfer of reserves	–	–	3,475	–	–	(3,475)	–
At 31 December 2011	34,853	114,106	20,886	1,498	74,326	93,590	339,259

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**74,707**	70,135
Adjustments for:		
Depreciation of property, plant and equipment	**31,405**	27,950
Amortisation of intangible assets	**848**	320
Loss on disposal of property, plant and equipment	**3**	38
Interest income	**(1,092)**	(449)
Finance costs	**688**	204
Equity-settled share-based payment expenses	**1,498**	–
Operating cash flows before movements in working capital	**108,057**	98,198
Increase in rental deposits	**(2,009)**	(4,904)
Increase in inventories	**(7,378)**	(4,327)
Increase in trade and other receivables	**(58)**	(6,838)
Increase in trade and other payables	**22,592**	21,461
Cash generated from operations	**121,204**	103,590
Income tax paid	**(27,022)**	(22,825)
NET CASH FROM OPERATING ACTIVITIES	**94,182**	80,765
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(35,417)**	(44,004)
Advance to related parties	**–**	(76)
Repayment from related parties	**465**	3,295
Interest received	**1,092**	449
Repayment from shareholders	**–**	407
Proceeds from disposal of property, plant and equipment	**6**	–
Purchase of intangible assets	**(584)**	(8,112)
NET CASH USED IN INVESTING ACTIVITIES	**(34,438)**	(48,041)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
FINANCING ACTIVITIES		
Proceeds from issue of shares	**159,349**	–
Transaction cost on issue of shares	**(10,558)**	–
Repayment to related parties	**(163)**	(72,866)
Payment to related parties upon Group Reorganisation	**–**	(69,809)
Advance from shareholders	**–**	107,217
Advance from related parties	**–**	20,968
Dividends paid	**–**	(28,380)
Interest expense paid	**(688)**	(204)
Repayment to shareholders	**–**	(12,004)
Repayment to a director	**–**	(500)
Repayment of bank borrowings	**(53,019)**	–
New bank loans raised	**12,000**	41,019
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**106,921**	(14,559)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**166,665**	18,165
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**126,902**	108,737
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**293,567**	126,902

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. GENERAL

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 11 March 2010 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 19 April 2011 (the "**Listing Date**"). The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is located at Unit 3, 10th Floor, Greenfield Tower, Concordia Plaza, No. 1 Science Museum Road, Kowloon, Hong Kong.

Pursuant to corporate reorganisation (the "**Group Reorganisation**") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company has become the holding company of the Group on 25 March 2011. Details of the Group Reorganisation were set out in the section headed "Statutory and General Information" in Appendix V to the prospectus of the Company dated on 7 April 2011.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated statement of comprehensive income and cash flows for each of the two years ended 31 December 2011 include the results and cash flows of the companies now comprising the Group which have been prepared by applying the principles of merger accounting, as if the Group structure upon the completion of the Group Reorganisation had been in existence throughout each of the two years ended 31 December 2011, or since their respective dates of incorporation/establishment where this is a shorter period.

The Company is an investment holding company. The Group is principally engaged in restaurant operation.

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company and its subsidiaries.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current period, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
Hong Kong Accounting Standard ("**HKAS**") 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK (IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

* *IFRIC represents the IFRS Interpretation Committee.*

The application of these new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current or prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 7 and 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012
6 Effective for annual periods beginning on or after 1 January 2014

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The directors of the Company anticipate that the application of the other new and revised standards, amendments and interpretations will have no material impact on the consolidated financial statements of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and service provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and title have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Commission income from sales of tea related products is recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment, other than construction in progress as described below, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction in progress, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a straight-line basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and the deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in-first-out method. Net realisable value represents the estimate selling price for inventories less all estimated cost of completion and cost necessary to make the sale.

Customer loyalty award credits

Customer loyalty award credits granted to customers as part of a sales transaction are to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments ***(Continued)***

Financial assets ***(Continued)***

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a related party and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on loans and receivables below).

Impairment loss on loans and receivables

Financial assets are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as trade and other receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30–80 days, observable changes in national or local economic conditions that correlate with default on receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment loss on loans and receivables (Continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit and loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments ***(Continued)***

Equity instruments ***(Continued)***

Financial liabilities

Financial liabilities including trade and other payables, amount due to a related party and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

The following is key assumption concerning the future, and other key source of estimation uncertainty at the end of the reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation on property, plant and equipment

The Group depreciates the different classes of property, plant and equipment on a straight-line basis at applicable depreciation rates as set out in note 14 over the estimated useful life. The useful life is estimated with reference to the wear and tear history of property, plant and equipment. The estimated useful life reflects the director's estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits as disclosed in the consolidated financial statements.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and risks associate with each class of capital. Based on recommendations of the directors, the Group will balance the overall capital structure of the Group through the payment of dividends, new share issues as well as raising of new bank loans.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2011 **RMB'000**	2010 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**302,984**	136,342
Financial liabilities		
Amortised cost	**(74,725)**	(104,290)

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, amount due to a related party, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk

(i) Currency risk

The Group has foreign currency transactions, which expose the Group to market risk arising from changes in foreign exchange rates. The Group currently does not have a foreign currency hedging policy. However, management closely monitors its foreign currency risk exposure and enters into foreign currency forward contracts should the need arise.

The carrying amount of the Group's monetary assets and monetary liabilities denominated in Hong Kong Dollars ("**HK$**") at the reporting periods are as follows:

	2011 RMB'000	2010 RMB'000
Assets		
HK$	**48,328**	29,153
Liabilities		
HK$	**(1,014)**	(17,651)

Sensitivity analysis

A 5% sensitivity rate is used when reporting foreign currency risk internally to key management personnel because it represents management's assessment of the possible change in HK$ against RMB rate. On the basis of the above assets and liabilities denominated in HK$ at the end of reporting period, and assuming all other variables remain unchanged, a 5% weakening of the HK$ against RMB throughout the year would give rise to an exchange loss and a decrease in profit for the year in the following magnitude, and vice versa:

	2011 RMB'000	2010 RMB'000
Profit for the year	**(2,366)**	(575)

Other than HK$, the Group does not have any other major exposure to foreign currency risk.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits placed with bank.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (see notes 19 and 21 for details of these bank balances and bank borrowings). Management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. Fluctuations of Hong Kong Inter-bank Offered Rate ("**HIBOR**") and prevailing rate quoted by the People's Bank of China ("**POB**") are the major sources of the Group's cash flow interest rate risk.

The management considered the Group's exposure to cash flow interest rate risk in relation to variable-rate bank balances is insignificant as they are within short maturity period. Accordingly, no sensitivity analysis is presented.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk

As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputations.

There was no significant concentration of credit risk as the balance of the exposure is spread over a number of counterparties and customers.

Liquidity risk

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short-term funding and liquidity management requirements.

The Group manages liquidity risk by continuously monitoring forecasted and actual cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest payments are at variable rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity table

	Weighted average interest rate %	Repayable on demand RMB'000	Less than 1 month RMB'000	1–3 months RMB'000	3 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying value at 31 December 2011 RMB'000
At 31 December 2011							
Trade and other payables	N/A	–	74,625	–	–	74,625	74,625
Amount due to a related party	N/A	100	–	–	–	100	100
		100	74,625	–	–	74,725	74,725

	Weighted average interest rate %	Repayable on demand RMB'000	Less than 1 month RMB'000	1–3 months RMB'000	3 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying value at 31 December 2010 RMB'000
At 31 December 2010							
Trade and other payables	N/A	–	63,008	–	–	63,008	63,008
Amount due to a related party	N/A	263	–	–	–	263	263
Bank loans	4.04	–	17,075	–	24,486	41,561	41,019
		263	80,083	–	24,486	104,832	104,290

(c) Fair value

The fair value of financial assets and financial liabilities of the Group are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. REVENUE AND SEGMENT INFORMATION

Revenue represents the amount received and receivable for the operation of restaurants, net of discount and sales related taxes, are as follows:

	2011 **RMB'000**	2010 RMB'000
Gross revenue	**791,291**	639,764
Less: sales related tax	**(45,088)**	(33,235)
	746,203	606,529

HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("**CODM**") in order to allocate resources to segments and to assess their performance. The information reported to the Group's CODM for the purpose of resource allocation and assessment of performance is prepared under HKFRSs, based on geographical location of its restaurants.

Segment information about these businesses is presented below.

Year ended 31 December 2011

	Southern China RMB'000	**Eastern China RMB'000**	**Northern China RMB'000**	**Eliminations RMB'000**	**Total RMB'000**
REVENUE					
External sales	**129,435**	**342,122**	**274,646**	**–**	**746,203**
Inter-segment sales*	**1,326**	**21,486**	**3,260**	**(26,072)**	**–**
Total	**130,761**	**363,608**	**277,906**	**(26,072)**	**746,203**
RESULT					
Segment profit	**9,215**	**35,991**	**54,197**	**–**	**99,403**
Unallocated corporate expenses					**(24,696)**
Profit before tax					**74,707**

* *Inter-segment sales are charged at prevailing market rates.*

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2010

	Southern China RMB'000	Eastern China RMB'000	Northern China RMB'000	Eliminations RMB'000	Total RMB'000
REVENUE					
External sales	119,303	266,478	220,748	–	606,529
Inter-segment sales*	813	26,014	–	(26,827)	–
Total	120,116	292,492	220,748	(26,827)	606,529
RESULT					
Segment profit	2,817	17,478	53,716	–	74,011
Unallocated corporate expenses					(3,876)
Profit before tax					70,135

* *Inter-segment sales are charged at prevailing market rates.*

Other information

Year ended 31 December 2011

	Southern China RMB'000	**Eastern China RMB'000**	**Northern China RMB'000**	**Total RMB'000**
Amounts included in the measure of segment profit or loss:				
Depreciation of property, plant and equipment	**7,405**	**14,168**	**9,832**	**31,405**
Amortisation of intangible assets	**–**	**–**	**437**	**437**
Loss on disposal of property, plant and equipment	**–**	**3**	**–**	**3**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Other information *(Continued)*

Year ended 31 December 2010

	Southern China RMB'000	Eastern China RMB'000	Northern China RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss:				
Depreciation of property, plant and equipment	8,248	13,376	6,326	27,950
Amortisation of intangible asset	–	–	182	182
Loss on disposal of property, plant and equipment	38	–	–	38

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of the expenses incurred by the Group's head office. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

As the Group's segment assets and liabilities are not regularly provided to the CODM, the measure of total assets and liabilities for each operating segment is not required to be presented.

The Group's revenue are arising from operating restaurant only.

Geographical information

All of the Group's operations are located in the People's Republic of China (the "**PRC**"). The Group's revenue from external customers and all of its non-current assets are located in PRC.

Information about major customers

There was no revenue from customer contributing over 10% of total revenue of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

8. OTHER GAINS AND LOSSES

	2011 RMB'000	2010 RMB'000
Loss on disposal of property, plant and equipment	**(3)**	(38)
Interest income	**1,092**	449
Commission income *(note)*	**10,082**	8,979
Others	**3,427**	2,174
	14,598	11,564

Note: Commission income represents commission received or receivable in respect of sales of tea related products.

9. PROFIT BEFORE TAX

	2011 RMB'000	2010 RMB'000
Profit before tax has been arrived at after charging:		
Directors' emoluments *(note 10)*	**4,058**	2,891
Other staff costs	**152,242**	118,322
Retirement benefit scheme contributions excluding those of directors	**15,328**	12,125
Equity-settled share-based payment expenses	**1,498**	–
Total staff costs	**173,126**	133,338
Auditors' remuneration	**2,646**	666
Depreciation of property, plant and equipment	**31,405**	27,950
Amortisation of intangible assets	**848**	320
Net foreign exchange losses	**3,956**	4,003

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

Details of the emoluments paid by the Group to the directors of the Company for the year are as follows:

	2011					2010				
	Fees RMB'000	Salaries and other allowances RMB'000	Performance related bonus RMB'000 *(note)*	Retirement benefits scheme contributions RMB'000	Total RMB'000	Fees RMB'000	Salaries and other allowances RMB'000	Performance related bonus RMB'000 *(note)*	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors:										
Mr. Chan Man Wai ("**Mr. Chan**")	279	–	–	–	279	–	–	–	–	–
Mr. Yip Shu Ming ("**Mr. Yip**")	335	1,045	528	–	1,908	–	1,684	74	–	1,758
Mr. Ku Hok Chiu ("**Mr. Ku**")	279	–	–	–	279	–	–	–	–	–
Ms. Weng Peihe	958	319	–	–	1,277	–	957	175	1	1,133
Independent non-executive directors:										
Mr. Kwong Chi Keung	105	–	–	–	105	–	–	–	–	–
Mr. Kwong Ping Man	105	–	–	–	105	–	–	–	–	–
Mr. Cheung Kin Ting, Alfred	105	–	–	–	105	–	–	–	–	–
	2,166	1,364	528	–	4,058	–	2,641	249	1	2,891

Note: The performance related bonus for the years ended 31 December 2011 and 2010 were determined based on performance of the Group.

Employees

Of the five individuals with highest emoluments in the Group, two (2010: two) are directors of the Company. The emoluments of the remaining three (2010: three) individuals, are as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other allowances	**2,387**	1,968
Performance related bonus	**–**	82
Retirement benefit scheme contributions	**24**	10
	2,411	2,060

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Employees *(Continued)*

Their emoluments were within the following bands:

	Number of employees	
	2011	2010
Not exceeding HK$1,000,000	**2**	3
HK$1,000,001 to HK$1,500,000	**1**	–
	3	3

No emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any of their emoluments.

11. INCOME TAX EXPENSE

	2011	2010
	RMB'000	RMB'000
Enterprise income tax in the PRC		
Current tax	**28,086**	24,600
Deferred tax *(Note 22)*	**(4,105)**	(996)
	23,981	23,604

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

11. INCOME TAX EXPENSE *(Continued)*

The Company was incorporated in the Cayman Islands and is exempted from income tax. It is not subject to tax in other jurisdictions.

Hong Kong

No provision for taxation has been made as the Group's income neither arises nor is derived from Hong Kong.

PRC

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards except Shanghai Pudong Tang Palace Seafood Restaurant Company Ltd and Shenzhen Tang Palace F&B Co., Ltd. (the "**tax preferential companies**"). The applicable tax rate of the tax preferential companies is 24% (2010: 22%).

The tax charge for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2011 **RMB'000**	2010 RMB'000
Profit before tax	**74,707**	70,135
Applicable domestic tax rate	**25%**	25%
Tax at domestic rates applicable to profits of taxable entities in the locations concerned	**18,677**	17,534
Tax effect of expenses not deductible for tax purpose *(note i)*	**8,610**	1,533
Tax effect of tax losses not recognised	**–**	4,458
Utilisation of tax losses not recognised in previous years	**(911)**	(1,108)
Recognition of deferred tax of tax losses not recognised in previous years	**(1,897)**	–
Effect of preferential income tax rate granted to the tax preferential companies	**(46)**	(215)
Withholding tax on undistributable earnings	**(452)**	1,402
Tax charge for the year	**23,981**	23,604

Note i: The amount mainly consists of headquarter operating cost, pre-operating expenses of certain new subsidiaries, entertainment expenses and listing expenses, which is not deductible for tax purpose under the relevant tax jurisdiction.

Details of deferred taxation are set out in note 22.

Notes to the Consolidated Financial Statements

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12. DIVIDENDS

A final dividend of HK$0.09 (2010: nil) per share in respect of the year ended 31 December 2011 amounting to approximately HK$37,350,000 (equivalent to approximately RMB30,366,000) (2010: nil) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming general meeting.

In 2010, the amount of approximately RMB24,475,000 represented dividends paid by the companies comprising the Group to their shareholders prior to the Group Reorganisation.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owner of the Company is based on the following data:

	2011 **RMB'000**	2010 RMB'000
Earnings:		
Profit for the year attributable to owners of the Company and earnings for the purposes of basic and diluted earnings per share	**50,726**	46,531
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**380,684,932**	300,000,000
Effect of dilutive potential ordinary shares in respect of share options	**1,085,666**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**381,770,598**	300,000,000

The number of ordinary shares for calculating basic earnings per share for the year ended 31 December 2010 has been retrospectively adjusted for the issuance of 298,000,000 shares pursuant to a capitalisation issue and 2,000,000 shares pursuant to the Group Reorganisation as detailed in note 23.

No diluted earnings per share are presented for the year ended 31 December 2010 as there were no potential ordinary shares issued in 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement RMB'000	Furniture fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST					
At 1 January 2010	116,241	24,222	1,732	300	142,495
Additions	20,360	6,056	157	19,370	45,943
Disposals	(38)	–	–	–	(38)
Transfer	8,202	–	–	(8,202)	–
At 31 December 2010	144,765	30,278	1,889	11,468	188,400
Additions	22,975	6,659	793	4,990	35,417
Disposals	–	(11)	–	–	(11)
Transfer	10,781	886	–	(11,667)	–
At 31 December 2011	178,521	37,812	2,682	4,791	223,806
DEPRECIATION					
At 1 January 2010	54,827	10,323	443	–	65,593
Provided for the year	22,901	4,727	322	–	27,950
At 31 December 2010	77,728	15,050	765	–	93,543
Provided for the year	26,044	4,992	369	–	31,405
Eliminated on disposals	–	(2)	–	–	(2)
At 31 December 2011	103,772	20,040	1,134	–	124,946
CARRYING VALUE					
At 31 December 2011	74,749	17,772	1,548	4,791	98,860
At 31 December 2010	67,037	15,228	1,124	11,468	94,857

The property plant and equipment, other than construction in progress, are depreciated over their estimated useful lives, after taking into account their residual value, as follows:

Leasehold improvement	The shorter of the period of the respective lease or 5 years
Furniture, fixtures and equipment	20% – 33%
Motor vehicles	20% – 25%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

15. INTANGIBLE ASSETS

	Licenses and franchises RMB'000	Trademark RMB'000	Total RMB'000
COST			
At 1 January 2010	–	–	–
Additions	3,985	4,127	8,112
At 31 December 2010	3,985	4,127	8,112
Additions	584	–	584
At 31 December 2011	4,569	4,127	8,696
AMORTISATION			
At 1 January 2010	–	–	–
Provided for the year	182	138	320
At 31 December 2010	182	138	320
Provided for the year	437	411	848
At 31 December 2011	619	549	1,168
CARRYING VALUE			
At 31 December 2011	3,950	3,578	7,528
At 31 December 2010	3,803	3,989	7,792

All of the Group's licenses and franchises were acquired from third parties and the trademark was purchased from a related party. The intangible assets have definite useful lives. Such intangible assets are amortised on a straight-line basis over 10 years.

Licenses and franchises representing the carrying amount of the brand name "Pepper Lunch" franchise, acquired in 2010. The franchise entitles the Group to develop and operate fast food restaurants under the brand name of Pepper Lunch for the 10 years from the date of acquisition.

Trademark representing the carrying amount of the "Tang Palace" trademark and license, acquired during 2010. The license entitles the Group to use of the trademark for 10 years from the date of acquisition upon the transfer of trademark to the Group completed on 6 January 2011.

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16. INVENTORIES

	2011 **RMB'000**	2010 RMB'000
Food and beverages, and other operating items for restaurant operations	**20,151**	12,773

17. TRADE AND OTHER RECEIVABLES

Generally, there was no credit period for sales from operation of restaurant, except for certain well established, corporate customers for which the credit terms are ranging from 30 to 80 days. The aged analysis of the Group's trade receivables based on invoice dates at the end of the reporting period:

	2011 **RMB'000**	2010 RMB'000
Trade receivables:		
0–30 days	**6,049**	5,391
31–60 days	**1,075**	807
61–90 days	**438**	571
Over 90 days	**841**	903
	8,403	7,672
Other receivables and deposits:		
Prepayments	**7,914**	8,298
Others	**1,014**	1,303
	8,928	9,601
	17,331	17,273

Before accepting any new corporate customers, the Group based on the nature or the counterparty to assess the potential customer's credit quality and define credit limits by customer. Credit limits to customers are reviewed periodically.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

17. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in the trade receivable balance are the following past due debts for which no impairment loss has been provided:

Ageing of trade receivables which are past due but not impaired

	2011 RMB'000	2010 RMB'000
31–60 days	**1,075**	807
61–90 days	**438**	571
Over 90 days	**841**	903
	2,354	2,281

The Group did not hold any collateral against the above amounts. However, management believes that these amounts are still recoverable because there has not been an adverse change in the relevant entities' credit quality.

18. AMOUNTS DUE FROM (TO) RELATED PARTIES

Directors' current accounts disclosed pursuant to section 161B of the Companies Ordinance are as follows:

				Maximum amount outstanding during the year ended	
	Notes	**2011 RMB'000**	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Amount due from a related party: Dongguan Well Excellent Hotel Management Services Co., Ltd. ("**DGWE**")	(i)	**–**	465	**465**	1,300
Amount due to a related party: Chiu Kwun Engineering (Shenzhen) Co., Ltd. ("**Chiu Kwun**")	(ii)	**(100)**	(263)	**N/A**	N/A

The amounts are non-trade in nature, unsecured, interest-free and repayable on demand. The non-trade amounts arose as a result of temporary advances to/(from) related parties.

Notes:

(i) Mr. Chan, Mr. Ku and Mr. Yip are directors and shareholders of DGWE.

(ii) Mr. Ku is the beneficial owner of Chiu Kwun.

Notes to the Consolidated Financial Statements

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19. BANK BALANCES AND CASH

Bank balances and cash of the Group comprise cash and short-term bank deposits with and original maturity of three months or less. The bank balances carry interest rates as follows:

	2011	2010
Range of interest rate per annum	**0.01%–3.30%**	0.01%–1.35%

Bank balances and cash that are denominated in currencies other than the functional currency of the relevant group entities are as follows:

	2011 **RMB'000**	2010 RMB'000
RMB equivalent of HK$	**48,236**	29,058
RMB equivalent of USD	**2,144**	659

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

20. TRADE AND OTHER PAYABLES

Ageing analysis of the Group's trade payables presented based on invoice dates at the end of the reporting period are as follows:

	2011 **RMB'000**	2010 RMB'000
Trade payables:		
0–30 days	**30,519**	24,377
31–60 days	**1,497**	2,349
61–90 days	**451**	388
91–180 days	**301**	934
Over 180 days	**928**	719
	33,696	28,767
Other payables:		
Other payables and accruals	**18,974**	15,663
Salary and welfare payables	**26,537**	22,266
Receipts in advance	**28,483**	18,402
	73,994	56,331
	107,690	85,098

The average credit period on purchases of certain goods is 30 to 90 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

21. BANK BORROWINGS

	2011 **RMB'000**	2010 RMB'000
Bank borrowings	–	41,019

The secured bank borrowings were repayable within one year and they were classified as current liability. Details of guarantees provided by related parties were set out in notes 29.

In addition, the bank borrowings were interest-bearing at the quoted lending rate of POB or HIBOR, as appropriate, which were fully settled in 2011.

The effective interest rates (which were also equal to contracted interest rates) on the Group's bank borrowings were as follows:

	2011	2010
Effective interest rate:		
Variable rate borrowings in Hong Kong	**N/A**	1.45%
Variable rate borrowings in PRC	**N/A**	5.1%

The Group's bank loans that were denominated in a currency other than the functional currencies of the relevant group entities are set below:

	2011 **RMB'000**	2010 RMB'000
HK$	–	17,019

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

22. DEFERRED TAX

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2011 **RMB'000**	2010 RMB'000
Deferred tax assets	**(4,600)**	(947)
Deferred tax liabilities	**950**	1,402
	(3,650)	455

The deferred tax (assets) liabilities recognised by the Group and movements thereon during the current and prior years are as follows:

	Tax losses RMB'000	**Undistributable profits of the PRC subsidiaries** RMB'000	**Total** RMB'000
At 1 January 2010	–	1,451	1,451
Credit to profit or loss	(947)	(49)	(996)
At 31 December 2010	(947)	1,402	455
Credit to profit or loss	(3,653)	(452)	(4,105)
At 31 December 2011	(4,600)	950	(3,650)

At the end of the reporting period, the Group has unused tax losses of approximately RMB33,931,000 (2010: RMB30,550,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB18,401,000 (2010: RMB3,788,000) of such losses. No deferred tax asset has been recognised in respect of the remaining losses of approximately RMB15,530,000 (2010: RMB26,762,000) due to the unpredictability of future profit streams.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

22. DEFERRED TAX *(Continued)*

The unused tax losses will expire as follow:

	2011 **RMB'000**	2010 RMB'000
2013	**1,343**	4,884
2014	**5,132**	5,234
2015	**17,067**	20,432
2016	**10,389**	–
	33,931	30,550

Other losses may be carried forward in definitely.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries was approximately RMB132,216,000 (2010: RMB72,088,000), while the amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB113,216,000 (2010: RMB44,048,000). No deferred tax liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

23. SHARE CAPITAL

	Notes	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.10 each			
Authorised:			
At the date of incorporation and at 31 December 2010	(i)	2,000,000	200
Increase in authorised share capital on 19 April 2011	(ii)	1,998,000,000	199,800
At the end of year		2,000,000,000	200,000
Issued and fully paid:			
Issue of shares on the date of incorporation and at 31 December 2010		1	HK$0.1 (nil paid)
Issue of shares pursuant to the Group Reorganisation on 25 March 2011	(ii)	1,999,999	200
Issue of shares pursuant to the capitalisation issue on 19 April 2011	(iii)	298,000,000	29,800
Issue of shares pursuant to the global offering on 19 April 2011	(iv)	100,000,000	10,000
Issue of shares on the exercise of over-allotment option on 26 April 2011	(v)	15,000,000	1,500
At the end of year		415,000,000	41,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

23. SHARE CAPITAL *(Continued)*

	RMB'000
Presented as	34,853

(i) The Company was incorporated on 11 March 2010 and the authorised share capital was HK$200,000 divided into 2,000,000 shares of HK$0.10 each. As at the date of incorporation, one share was allotted and issued at nil paid.

(ii) Pursuant to the written resolution passed on 25 March 2011, the authorised share capital of the Company was increased from HK$200,000 to HK$200 million, divided into 2,000 million shares, by the creation of additional authorised shares of 1,998 million of HK$0.10 each. On the same day, the Company acquired the entire equity interest of China Tang Palace F&B Enterprise Limited ("**Tang Palace BVI**") from Mr. Chan, Mr. Yip and Mr. Ku in consideration of issuing an aggregate of 1,999,999 shares with nominal value of HK$0.10 each, as to 999,999 shares to Best Active Investments Limited, 700,000 shares to Current Success Investments Limited and 300,000 shares to Bright Mind Investments Limited.

(iii) Pursuant to the written resolutions of all shareholders entitled to vote at general meetings of the Company, which were passed on 25 March 2011, an amount of approximately HK$29.8 million (presented as RMB25,027,000) standing to the credit of the share premium account of the Company was capitalised at the Listing Date and applied to pay up in full at par a total of 298,000,000 new shares for allotment and issued to the shareholders of the Company whose names appeared on the register of members of the Company on 25 March 2011 and details of which are set out in the section headed "Statutory and General Information" in Appendix V to the Prospectus dated on 7 April 2011.

(iv) On 19 April 2011, 100,000,000 ordinary shares of HK$0.10 each of the Company were issued at a price of HK$1.65 by way of global offering. On the same date, the Company's shares were listed on the Main Board of the Stock Exchange. The proceeds of HK$10,000,000 (equivalent to RMB8,398,000) representing the par value of the shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK$155,000,000 (equivalent to RMB130,165,000), before issuing expenses, were credited to share premium account.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

23. SHARE CAPITAL *(Continued)*

(v) On 26 April 2011, 15,000,000 ordinary shares of HK$0.10 each of the Company were issued at a price of HK$1.65 pursuant to an over-allotment option. The proceeds of HK$1,500,000 (equivalent to RMB1,260,000) representing the par value of the shares of the Company, were credited to the Companys share capital. The remaining proceeds of HK$23,250,000 (equivalent to RMB19,526,000), before issuing expenses, were credited to share premium account.

The share capital at 31 December 2010 in the consolidated statement of financial position represented the aggregate share capital of the Company and Tang Palace BVI.

24. RESERVES

Statutory general reserve

Statutory general reserve represents the appropriation of 10% of profit after taxation determined based on the relevant accounting rules and regulations of the PRC as required by the Articles of Association of the Company's PRC subsidiaries. The appropriation may cease to apply if the balance of the statutory general reserve has reached 50% of the PRC subsidiaries' registered capital.

Other reserve

Other reserve includes: (a) the difference between the nominal value of the share capital issued by Tang Palace BVI and the nominal value of share capital of the subsidiaries acquired by Tang Palace BVI, (b) the deemed contribution from a controlling shareholder of RMB1,866,000 arising on the acquisition of remaining 10% equity interest in Meco Petrochemical Limited from Mr. Hui Yui Chuen ("**Mr. Hui**"), a non-controlling shareholder, by Mr. Chan, a founder shareholder of the Company, in 23 December 2009 and representing the unaudited combined net assets value of Meco Petrochemical Limited attributable to Mr. Hui as at 30 November 2009 reclassified from non-controlling interests as deemed contribution by Mr. Chan, (c) the difference between the subscription price and the nominal value of the shares allotted and issued by Tang Place BVI of RMB35,014,000 and the deemed contribution from controlling shareholders of RMB107,215,000 and (d) the difference between the nominal value of 1,999,999 shares of HK$0.1 each in the Company issued and the entire issued share capital of Tang Palace BVI of US$50,000 eliminated as a result of the Group Reorganisation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

25. SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to a written resolution passed on 25 March 2011 by the shareholders of the Company, the Group adopted a Pre-IPO Share Option Scheme. On 25 March 2011, share options to subscribe for an aggregate of 4,000,000 shares were granted to 68 senior management and employees at a nominal consideration of HK$1 for each grant. The directors confirmed that no further share options under the Pre-IPO Share Option Scheme has been or will be granted.

The purpose of the Pre-IPO Share Option Scheme is to recognise and reward the contribution of certain directors, senior management and employees of the Group to the growth and development of the Group and the listing of the Company's shares on the Stock Exchange.

The principal terms of the Pre-IPO Share Option Scheme are the followings:

- The Pre-IPO Share Option Scheme may only be granted from 25 March 2011 to 31 March 2011.
- The exercise price of the share option granted under the Pre-IPO Share Option Scheme is 50% of the final offer price in connection with the Company's international placing and initial public offering (i.e. HK$1.65 per share) and are exercisable and vested in the following manner:
  - up to 30% of the options granted may be exercised on or prior to the end of the second year after the Listing Date;
  - up to 60% of the options granted may be exercised on or prior to the end of the third year after the Listing Date; and
  - all outstanding options may be exercised prior to the expiry on the day falling four years after the Listing Date.

As at 31 December 2011, the number of options which remained outstanding under the Pre-IPO Share Option Scheme was 4,000,000 which, if exercised in full, represents around 1% of the enlarge share capital of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

25. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The following table disclosed movement in the Company's share options during the year:

	Vesting period	Exercisable period	Exercise price	As at 1 January 2010 and 31 December 2010	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 31 December 2011	Estimated option value per share
Tranche 1	25/03/2011–19/04/2012	20/04/2012–20/04/2015	HK$0.825	–	1,200,000	–	–	–	1,200,000	HK$1.0439
Tranche 2	25/03/2011–19/04/2013	20/04/2013–20/04/2015	HK$0.825	–	1,200,000	–	–	–	1,200,000	HK$1.0615
Tranche 3	25/03/2011–19/04/2014	20/04/2014–20/04/2015	HK$0.825	–	1,600,000	–	–	–	1,600,000	HK$1.0708
				–	4,000,000	–	–	–	4,000,000	

The fair value of the share options at the date of grant determined using the binomial option pricing model is approximately HK$4,240,000. The Group recognised a total expense of approximately HK$1,803,000 (presented as RMB1,498,000) in relation to the options granted by the Company during the year.

The variables and assumptions used in computing the fair value of the share options are based on the management's best estimate. The value of an option varies with different variables of a number of subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

The major inputs into the models at the grant date were as follows:

Expected share price as at grant date	HK$1.65
Exercise price	HK$0.825
Expected volatility	59.07%
Expected life	2.6–3.6 years
Risk-free rate	1.797%
Dividend yield	0%
Early exercise level	3.5 times

The risk-free rate has made reference to the yield of HK Exchange Fund Notes (EFN) as at the grant date. The volatility of the Company's stock was determined by reference to the share price volatilities of companies in similar line of business of the Company and assumed to be constant throughout the option life.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

26. OPERATING LEASE COMMITMENTS

The Group as lessee

The minimum lease payments and contingent rents paid under operating lease commitment in premises for the year ended 31 December 2011 are approximately RMB50,104,000 (2010: RMB36,403,000) and RMB170,000 (2010: nil) respectively. Contingent rents related to certain restaurants leased by the Group are calculated with reference to the relevant restaurants' revenue at pre-determined rate.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011 **RMB'000**	2010 RMB'000
Within one year	**58,989**	45,546
In the second to fifth year inclusive	**160,027**	141,931
After five years	**76,690**	87,256
	295,706	274,733

The above lease commitments represent basic rents only and do not include contingent rents payable in respect of certain restaurants leased by the Group. It is not possible to estimate in advance the amount of such contingent rents payable.

The leases are generally negotiated for a term ranging from 3 to 10 years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

27. CAPITAL COMMITMENTS

	2011 RMB'000	2010 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**6,772**	3,366

28. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme ("**MPF Scheme**") for all its qualifying employee in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of payroll cost to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

29. RELATED PARTY DISCLOSURES

Balances and transactions between the Company and its subsidiaries which are related parties of the Company, have been eliminated on consolidated financial statements and are not disclosed in this note. Details of transactions between the Group and the related parties are disclosed below.

During the year, the Group had the following transactions with related parties:

Name of related party	Nature of transaction	2011 RMB'000	2010 RMB'000
Chiu Kwun *(note i)*	Purchases of leasehold improvement	**585**	3,332
C & W (Nominees) Ltd. *(note ii)*	Professional fee expenses	**2**	23
DGWE *(note iii)*	Management fee *(note iv)*	**–**	680
	Rental expenses	**1,032**	430
Meco Group Company Limited *(note iii)*	Rental expenses	**4,019**	3,285
Well Excellent Development Limited *(note iii)*	Dividend recognised as distribution	**–**	24,475
	Purchase of trademark	**–**	4,127

The fund transfer through current accounts with shareholders and related parties during the year are set out in the consolidated statement of cash flows.

Notes:

(i) Mr. Ku is beneficial owner.

(ii) Mr. Chan Chi Kwong, a director of certain subsidiaries, is beneficial owner.

(iii) Mr. Chan, Mr. Ku and Mr. Yip are directors and shareholders of the companies.

(iv) Management fee has been paid up to March 2010 and discontinued in April 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

29. RELATED PARTY DISCLOSURES *(Continued)*

Balances

Details of balances with related parties are set out in note 18.

Compensation of key management personnel

The directors of the Company and the five highest paid employees are identified as key management members or the Group, their compensation during the year is set out in note 10.

Guarantees

The Group's bank facilities were guaranteed by the followings:

	2011 **RMB'000**	2010 RMB'000
Personal guarantee provided by shareholders on a joint and several basis together with the deposit of Well Excellent Development Limited	–	17,071
Properties held by Meco Group Company Limited	–	62,623
	–	79,694
Amount of the above facilities utilised by the Group up to 31 December	–	41,019

The above guarantees were fully released in 2011.

30. MAJOR NON-CASH TRANSACTIONS

During 2010, amounts due to shareholders of RMB107,217,000 were settled by way of capitalisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place and date of incorporation/ establishment	Registered and paid-up capital '000	Proportion of voting power held by the Company Directly 2011 %	2010 %	Indirectly 2011 %	2010 %	Proportion ownership interest held by the Company Directly 2011 %	2010 %	Indirectly 2011 %	2010 %	Principal activities
北京維華唐宮飲食有限公司 Beijing Well Excellent Tang Palace F & B Co., Ltd.	The PRC 16 January 2009	HK$3,000	–	–	**100%**	100%	–	–	**100%**	100%	Operating restaurant
北京民族唐宮海鮮舫有限公司 Beijing Minzu Tanggong Seafood Restaurant Co., Ltd.	The PRC 25 September 2003	RMB5,000	–	–	**100%**	100%	–	–	**100%**	100%	Operation restaurant
上海浦東唐宮海鮮舫有限公司 Shanghai Pudong Tang Palace Seafood Restaurant Company Ltd.	The PRC 10 July 2006	USD150	–	–	**100%**	100%	–	–	**100%**	100%	Operating restaurant
上海紅橋唐宮海鮮舫有限公司 Shanghai Hongqiao Tang Palace Seafood Restaurant Company Ltd.	The PRC 19 January 2006	USD150	–	–	**100%**	100%	–	–	**100%**	100%	Operating restaurant
上海長寧唐宮海鮮舫有限公司 Shanghai Changning Tang Palace Seafood Restaurant Co., Ltd.	The PRC 22 April 2010	HK$3,000	–	–	**100%**	100%	–	–	**100%**	100%	Operating restaurant
東莞世博唐宮海鮮舫有限公司 Dongguan Expo Tang Palace Seafood Restaurant Co., Ltd.	The PRC 11 January 2006	HK$3,000	–	–	**100%**	100%	–	–	**100%**	100%	Operating restaurant

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of all the subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

32. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2011 **RMB'000**	2010 RMB'000
Non-current assets		
Investments in subsidiaries	**7,097**	–
Amounts due from subsidiaries	**123,051**	–
	130,148	–
Current assets		
Trade and other receivables	**66**	–
Bank balances and cash	**2,069**	–
	2,135	–
Current liabilities		
Trade and other payables	**373**	–
Amounts due to subsidiaries	**1,688**	–
	2,061	–
Net current assets	**74**	–
Total assets less current liabilities	**130,222**	–
Capital and reserves		
Issued capital	**34,853**	–
Reserves	**95,369**	–
Equity attributable to owners of the Company	**130,222**	–

Financial Summary

Results

	Year ended 31 December			
	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**746,203**	606,529	449,890	393,309
Other gains and losses	**14,598**	11,564	7,821	6,777
Costs of inventories consumed	**(306,332)**	(260,384)	(194,262)	(187,143)
Staff costs	**(173,126)**	(133,338)	(98,059)	(80,392)
Depreciation of property, plant and equipment	**(31,405)**	(27,950)	(21,499)	(15,345)
Utilities and consumables	**(46,137)**	(37,455)	(28,858)	(26,974)
Rental and related expenses	**(60,937)**	(45,287)	(31,883)	(24,856)
Listing and related expenses	**(13,697)**	(2,098)	(4,386)	–
Other expenses	**(53,772)**	(41,242)	(30,829)	(27,012)
Finance cost	**(688)**	(204)	–	–
Profit before tax	**74,707**	70,135	47,935	38,364
Income tax expense	**(23,981)**	(23,604)	(15,939)	(12,501)
Profit and total comprehensive income for the year	**50,726**	46,531	31,996	25,863
Attributable to:				
Owners of the Company	**50,726**	46,531	31,240	25,322
Non-controlling interests	**–**	–	756	541
	50,726	46,531	31,996	25,863

Assets, liabilities and non-controlling interests

	As at 31 December			
	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**455,404**	272,367	217,004	177,273
Total liabilities	**(116,145)**	(134,123)	(138,224)	(113,686)
Non-controlling interests	**–**	–	–	(1,110)
	339,259	138,244	78,780	62,477

Note:

The summary of the consolidated results of the Group for each of the three years ended 31 December 2008, 2009 and 2010 and of the assets, liabilities and minority interests as at 31 December 2008, 2009 and 2010 have been extracted from the Company's prospectus dated 7 April 2011. Such summary was prepared as if the current structure of the Group has been in existence throughout these financial years. The consolidated results of the Group for the year ended 31 December 2011 and the consolidated assets and liabilities of the Group as at 31 December 2011 are those set out in the audited financial statements.