HOP HING GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 47

Annual Report 2012

active • growth • together


獅球嘜
芥花籽油
Lion & Globe Canola Oil

Contents

CORPORATE INFORMATION

DIRECTORS

Hung Hak Hip, Peter* *(Chairman)*
Hung Ming Kei, Marvin *(Chief Executive Officer)*
Wong Yu Hong, Philip**
Sze Tsai To, Robert**
Cheung Wing Yui, Edward **
Seto Gin Chung, John**
Shek Lai Him, Abraham**
Siu Wai Keung**
Lee Pak Wing*
Wong Kwok Ying
Lam Fung Ming, Tammy

* Non-executive directors
** Independent non-executive directors

AUDIT COMMITTEE

Sze Tsai To, Robert *(Chairman)*
Hung Hak Hip, Peter
Cheung Wing Yui, Edward
Seto Gin Chung, John

REMUNERATION COMMITTEE

Cheung Wing Yui, Edward *(Chairman)*
Hung Hak Hip, Peter
Sze Tsai To, Robert
Shek Lai Him, Abraham

NOMINATION COMMITTEE

Hung Hak Hip, Peter *(Chairman)*
Hung Ming Kei, Marvin
Wong Yu Hong, Philip
Seto Gin Chung, John
Shek Lai Him, Abraham

COMPANY SECRETARY

Wong Kwok Ying

AUDITORS

Ernst & Young
Certified Public Accountants

SOLICITORS

Simpson Thacher & Bartlett
Pinsent Masons

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
HSBC Bank (China) Company Limited
Bank of China Limited
Bank of China (Hong Kong) Limited
Nanyang Commercial Bank (China) Limited

PRINCIPAL REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Limited
Clifton House
75 Fort Street
P. O. Box 1350 GT
Grand Cayman
KY1-1108
Cayman Islands

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Clifton House
75 Fort Street
P. O. Box 1350 GT
Grand Cayman
KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

Units E & F, 2/F.
Hop Hing Building
9 Ping Tong Street East
Tong Yan San Tsuen
Yuen Long
New Territories
Hong Kong

WEBSITE

http://www.hophing.com

STOCK CODE

47

WARRANT CODE

134

FINANCIAL HIGHLIGHTS

"Turnover for the year ended 31 December 2012 under review was HK$2,878 million, **grew by 17.5%** compared to HK$2,450 million (restated) for the last year."

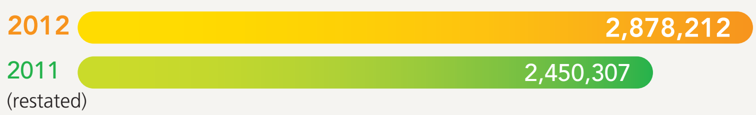
TURNOVER

QSR BUSINESS

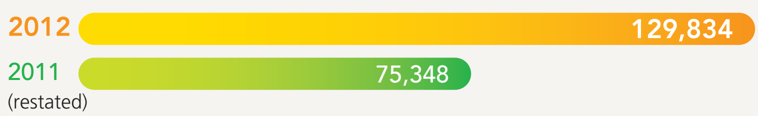
EDIBLE OIL BUSINESS

FINANCIAL HIGHLIGHTS

Turnover
HK$'000



Profit attributable to equity holders of the Company
HK$'000



Store Number and Expansion Summary
As at 31 December

Hop Hing owns the rights to operate the Yoshinoya and Dairy Queen QSR chains in the Northern regions in the PRC, spanning across Beijing and Tianjin municipalities, Hebei, Liaoning, Heilongjiang and Jilin Provinces, and the Inner Mongolia Autonomous Region in the PRC

Yoshinoya is

A WELL-KNOWN

RICE BOWL BRAND

with over 100 years' history

Dairy Queen is

A POPULAR

ICE-CREAM BRAND

with over 70 years' history


BLIZZARD
THE ORIGINAL
ONLY AT DQ


Heilongjiang
Inner Mongolia
Jilin
Liaoning
Beijing
Tianjin
Hebei
CHINA

CHAIRMAN'S STATEMENT

During the year under review, we added a net of 88 new stores to our store network, bringing **the total number of stores to 405** as of 31 December 2012, representing a growth of 27.7%

The past year has been one of change, with our business successfully transforming itself through the acquisition of quick service restaurant ("QSR") business in Northern China, namely the rice bowl brand "Yoshinoya" and ice cream brand "Dairy Queen". The perpetual subordinated convertible securities issued for the acquisition of the QSR businesses were fully converted into ordinary shares in September 2012, and institutional investors were introduced to our Company at the same time. Such transformation enabled us to diversify from solely specialising in edible oil business to become QSR–focused business, which significantly increased the scale of the Company in terms of turnover, net profit and market capitalisation.

The operating environment for the QSR industry in China was challenging in 2012. The sluggish economy particularly in the second half of the year and the rainy, cold and foggy weather in Northern China deterred people from dining outside of their homes. Adding to these challenges is the anti-Japan sentiment generated by the Diaoyu Islands situation in the second half of the year. In order to meet these challenges, the management has modified its development strategy to suit the needs of the changing customer demand, such as by offering delivery service and enhancing the product mix to attract customers during off-peak hours.

The QSR industry in Mainland China has experienced a number of challenges in relation to food safety in the year under review. The Company holds high regard to food safety and hygiene standards, and thus has comprehensive policies and measures in place. We will strengthen our internal control to ensure such policies and measures are reviewed in response to the changing operating environment and regulation changes and will be executed without compromise at all operational levels.

The QSR industry also faced a series of operational challenges including rising costs in raw material, labour and rental. Our acquisition of an agricultural company in 2012 has enabled us to save costs on sourcing certain key ingredients such as vegetables and fruits. This acquisition also helps us to secure a stable and reliable supply of quality agricultural ingredients for our QSR business.

During the year under review, we added a net of 88 new stores to our store network, bringing the total number of stores to 405 as of 31 December 2012, representing a growth of 27.7%. While we are cautious in evaluating new store opening proposal, we intend to continue to expand our store network within our franchise region in Northern China to ensure our Company enjoys long term growth.

Our edible oil business also experienced changes in 2012. We took over the edible oil business operation in respect of our products from our jointly-controlled entity this year. Our commitment and the strong reputation of our flagship brand "Lion & Globe" for serving our customers with quality edible oil products allowed us to benefit from the recent "gutter oil" scandal in Hong Kong, after which we received an influx of orders. In the Mainland China market, our edible oil operation was able to maintain positive earnings before interest, taxation and depreciation and amortisation (the "EBITDA").

We believe that the challenges faced by our QSR business in 2012 will continue to linger into 2013. However, we remain cautiously optimistic about the medium to long term growth of the Chinese economy, particularly the QSR industry in China which is supported by ever-increasing disposable income and urbanisation. We will adhere to our long term strategy of achieving sustainable growth by expanding and optimising our store network, introducing innovative new products and broadening our product portfolio, enhancing our customers' dining experience, maintaining stringent internal cost control and efficient operation while upholding food safety. We will continue to explore opportunities for improving the contribution of the edible oil business while also considering alternative approaches to enhance our shareholder value.

I would like to take this opportunity to thank all of our customers, shareholders and business partners for their continued support.

Hung Hak Hip, Peter
Chairman
Hong Kong, 19 March 2013

YOSHINOYA
21% Sales Growth
in the review period

MANAGEMENT DISCUSSION AND ANALYSIS

"During the year under review, we completed our acquisition (the "Acquisition") of the quick service restaurant group of companies (the "QSR Group") business under the brand names of rice bowl fast food chain "Yoshinoya" and ice-cream retailer "Dairy Queen" in Northern China. Revenue of HK$1,971 million was recorded in the QSR business, **representing a growth of 19.9%** compared to 2011. The Group recorded a same store sales growth of 7% in 2012."

SOLID PERFORMANCE

For the year ended 31 December 2012, the turnover of the Group increased by 17.5% to HK$2,878.2 million (2011 (restated): HK$2,450.3 million) which was mainly attributable to the increase of our store network by 88 stores (net) to 405 stores and the same store sales growth of 7% during the year. While the 27.7% increase in our store number enables the Group to invest in the future, the costs incurred for these new stores which did not operate for the full year have impacted the operating profit of the Group for the year under review. The earnings before interest, taxation and depreciation and amortisation (the "EBITDA") for the year was HK$328.2 million (2011 (restated): HK$327.8 million). The profit for the year was HK$144.2 million, comparing to HK$156.3 million (restated) for the last year.

After deducting the non-controlling interest of HK$14.4 million (2011 (restated): HK$81.0 million) which mainly related to equity interest in the QSR Group held by parties other than the substantial shareholder prior to the Acquisition, the profit attributable to the equity holders of the Company for the year under review was HK$129.8 million, representing an increase of 72.3% from HK$75.3 million (restated) in 2011.

Basic and diluted earnings per share for the year, which were calculated based on the profit attributable to the equity holders of the Company, were HK4.39 cents and HK1.30 cents respectively (2011 (restated): HK14.72 cents and HK0.76 cent respectively).

DIVIDEND

Subsequent to the end of the reporting period, on 19 March 2013, the directors recommended the payment of a final dividend of HK0.25 cent per ordinary share totalling approximately HK$24.8 million in respect of the year. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting ("AGM") to be held on 6 June 2013. The amount of final dividend recommended was calculated based on the number of ordinary shares in issue at the date of approval of the consolidated financial statements. These financial statements do not reflect the final dividend payable.

BUSINESS REVIEW

QSR business

Industry review

During the year under review, the global economy continued to hinge on the European debt crisis and economic downturn in the United States. Although the GDP growth of 7.8% per annum recorded by China in 2012 was among the highest across the globe, it is one of the lowest growth rates in China for the past decade. The economic slowdown and the adverse weather in Northern China in the second half of the year adversely impacted consumption patterns and reduce consumer interest in dining out. Adding to this challenging environment is the cost escalation, including rising costs of raw materials, rental and labour, which affected all QSR companies in Mainland China. Towards the end of the year, there was an industry wide food safety issue with regards to chicken products, which has seriously affected customers' interest in dining out in Mainland China.

Business review

In addition to the impact of the less robust macro-economy and the adverse weather conditions in our franchise regions, the anti-Japan sentiment triggered by the Diaoyu Islands situation added extra pressure to our QSR business in the second half of the year.

BUSINESS REVIEW *(continued)*

QSR business *(continued)*

Business review (continued)

In order to meet these challenges, we made great efforts to enhance our performance by strengthening our store network with new restaurants in locations with high growth potential, while exploring a delivery service via online ordering. The latter not only reduces our rental pressure but also meets the ever-rising online demand in Mainland China, backed by a huge population of internet users. We also devoted much effort on improving customers' dining experience through new product introduction and promotional activities. As a result, we have been able to report a turnover growth of 19.9% and same store sales growth of 7% in 2012.

	Same Store Sales Growth	
	2012	2011
Overall	**7.0%**	16.5%
By brand		
Yoshinoya	**8.0%**	18.2%
Dairy Queen	**0.6%**	4.6%

We have also invested in our operational system and improved productivity to offset part of the rising cost. During the year under review, our gross profit margin was maintained at a level of 60% and the profit before unallocated head office expense and after tax increased slightly to HK$153.3 million (2011: HK$152.0 million).

In 2012, we opened 88 net new stores (2011: 39 net new stores) including 61 Yoshinoya restaurants and 27 Dairy Queen stores, at a ratio of around 2:1. As at 31 December 2012, there were 405 stores in operation, including 270 Yoshinoya restaurants and 135 Dairy Queen stores.

	As at		
	31 December 2012	30 June 2012	31 December 2011
Yoshinoya			
Beijing	**161**	153	141
Tianjin	**18**	17	12
Hebei	**20**	14	7
Shenyang	**38**	30	26
Dalian	**17**	16	16
Changchun	**2**	–	–
HuHeHaoTe	**8**	7	6
Harbin	**6**	2	1
	270	239	209
Dairy Queen			
Beijing	**86**	85	76
Tianjin	**14**	14	8
Hebei	**9**	9	4
Shenyang	**10**	7	6
Dalian	**10**	10	10
HuHeHaoTe	**5**	4	4
Harbin	**1**	–	–
	135	129	108
Total	**405**	368	317

BUSINESS REVIEW *(continued)*

QSR business *(continued)*

Business review (continued)

In 2012, the Beijing-Tianjin-Hebei metropolitan region continued to be the QSR Group's largest market, and Yoshinoya was the key contributor of the QSR business, accounting for 89.8% of its total turnover (a similar level as that of 2011).

	2012		2011	
	HK$'000	**% of sales**	HK$'000	% of sales
a. By region				
Beijing-Tianjin-Hebei metropolitan region [1]	**1,505,336**	**76.4%**	1,258,715	76.5%
Northeast China and Inner Mongolia [2]	**465,985**	**23.6%**	386,027	23.5%
	1,971,321	**100.0%**	1,644,742	100.0%

[1] Including Beijing, Tianjin, Shijiazhuang, Tangshan, Langfang and Handan.
[2] Including Shenyang, Dalian, Changchun, Tongliao, HuHeHaoTe and Harbin.

b. By brand				
Yoshinoya	**1,770,262**	**89.8%**	1,462,979	88.9%
Dairy Queen	**201,059**	**10.2%**	181,763	11.1%
	1,971,321	**100.0%**	1,644,742	100.0%

The rising raw material cost has always been a challenge to the QSR industry. While we implemented our strategic procurement of key food ingredients to reduce the impact of rising costs, we did not and will never compromise on food quality. Together with improvement in operational efficiency, tight cost control measures and adjusting our menu prices on a selective basis, we were able to maintain our gross profit margin at a stable level at approximately 60%.

There is always a shortage of QSR staff in Mainland China, which keeps driving up the cost of labour. The salaries and wages of general staff have been increasing at a rate of over 10% last year. During the year under review, we raised the salary level to ensure its competitiveness and enable our staff to share the benefit of our business growth. We were able to keep the increase in the staff cost as a percentage of turnover to a minimal level of increase at around 0.1 percentage point.

BUSINESS REVIEW *(continued)*

QSR business *(continued)*

Business review *(continued)*

Having established long-term strategic relationships with key landlords, we were able to secure long term store leases running from 5 to 10 years, to minimise the impact of the rising rental cost brought about by urbanisation. The rental cost as a percentage of turnover for the year was 12.9%, which is 0.8 percentage point higher than that of last year. The increase in rental and other related costs, such as utility costs, were mainly due to expenses incurred for the 88 net new stores.

	2012		2011	
	HK$'000	**% of sales**	HK$'000	% of sales
Labour costs	**207,440**	**10.5%**	171,122	10.4%
Rental expense	**253,563**	**12.9%**	198,910	12.1%
Other operation expenses	**391,761**	**19.9%**	303,497	18.5%
Total selling and distribution costs	**852,764**	**43.3%**	673,529	41.0%

Edible oils

The edible oil operating environment in 2012 remained challenging. Raw material oil costs have been one of the major cost components of our products. Fluctuation in raw material costs impacted our profit margin significantly. During the year under review, we were able to increase our turnover by 12.6% to compensate for a decrease in gross margin and deliver a slight increase gross profit of HK$216 million. We continued to introduce quality and healthy edible oil products for our customers, such as DHA corn oil products. According to the data reported by Nielsen, one of the most reputable international research companies in Hong Kong, through its MarketTrack Service for the Edible Oil Category, for the period between January 2012 and December 2012, for Total Supermarket and Convenience Stores, our flagship brand "Lion & Globe" was ranked first in sales value and sales volume (Tonnage) for the given period.

Despite the tough edible oil market environment in Mainland China this year, the new management of our People's Republic of China ("PRC") edible oil operation was able to streamline the cost of the operation and deliver a positive EBITDA (earnings before interest, taxation and depreciation and amortisation), showing an improvement from last year.

FINANCIAL REVIEW

Equity

The number of issued shares of HK$0.10 each of the Company as at 31 December 2012 was 9,916,871,030 (31 December 2011: 515,661,188). As at 1 January 2012, the Company had outstanding 97,402,895 warrants carrying rights to subscribe for an aggregate of 97,402,895 new shares of HK$0.10 each at a subscription price of HK$0.20 per share. During the year under review, 5,988,350 warrants of the Company were exercised for 5,988,350 shares of HK$0.10 each at a price of HK$0.20 per share.

As at 1 January 2012, the Company had 33,568,000 outstanding share options. During the year, 3,329,600 share options were exercised for 3,329,600 shares of HK$0.10 each at a price of HK$0.35 per share and 634,400 share options were lapsed.

Liquidity and gearing

As at 31 December 2012, the Group's Hong Kong bank borrowing was bank loans of HK$123.0 million, in which HK$8.0 million has secured by certain property, plant and equipment of the Group. The Group's PRC bank borrowing as at the year end was bank loans of HK$26.3 million borrowed by a PRC subsidiary of the Group, which was secured by pledge of certain of the Group's time deposits.

FINANCIAL REVIEW *(continued)*

Liquidity and gearing *(continued)*

As at 31 December 2012, the Group's total bank loans amounting to HK$149 million (31 December 2011 (restated): HK$229 million) were either repayable or subject to renewal within one year.

The Group's gearing ratio (expressed as a percentage of interest-bearing bank loans over equity attributable to equity holders of the Company) as at 31 December 2012 was 21% (31 December 2011 (restated): 40%). The decrease in gearing ratio was mainly attributable to repayment of certain interest bearing bank loans.

As at 31 December 2012, the Group recorded a net cash position of HK$90.8 million (2011 (restated): HK$281.6 million) (being cash and cash equivalents and pledged bank deposits less interest-bearing bank loans). The decrease in net cash position of the Group was mainly due to settlement of outstanding dividends due to the previous shareholders of the QSR business. The cash flow movements of the QSR business in the year under review are analysed below:

	For the year ended 31 December	
	2012	2011
	HK$'000	HK$'000
Net cash inflow from operation before adjusting for the other cash flows items below	**225,296**	219,115
Purchases of items of property, plant and equipment	**(163,476)**	(99,615)
Interest payments, net drawing and repayment of bank and non-controlling shareholder loans	**(13,435)**	8,072
Other cash flow items		
Fund movements with group companies and related companies	**(53,277)**	84,912
Dividends paid	**(147,963)**	(74,609)
Net increase/(decrease) in cash and bank balances	**(152,855)**	137,875
Cash and bank balances at beginning of year	**331,709**	193,696
Effect of foreign exchange rates changes, net	**(446)**	138
Cash and bank balances at the end of year	**178,408**	331,709

The Group's finance costs for the year was HK$9.9 million (2011 (restated): HK$12.0 million). The decrease in finance costs was mainly attributable to the repayment of certain interest bearing bank loans during the year.

The Group's funding policy is to finance the business operations with internally generated cash and bank facilities. The Group's bank borrowings are denominated in Hong Kong dollars and Renminbi. The Group continues to adopt the policy of hedging foreign currency liabilities with foreign currency assets.

REMUNERATION POLICIES

Staff remuneration packages of the Group are comprised of salary and discretionary bonuses and are determined with reference to the market conditions and the performance of the Group and the individuals concerned. The Group also provided other staff benefits including medical insurance, continuing education allowances, provident funds and share options to eligible staff of the Group. The total remuneration paid to the employees (including pension costs and the directors' remuneration) of the Group in the year under review was HK$345.7 million (2011 (restated): HK$291.7 million), of which, HK$290.2 million (2011: HK$236.2 million) was the total staff cost in QSR business. As at 31 December 2012, the Group had 8,444 full time and temporary employees (2011: 8,078).

REMUNERATION POLICIES *(continued)*

Subsequent to 31 December 2012, the annual remuneration of Mr. Wong Kwok Ying and Ms. Lam Fung Ming, Tammy, executive directors of the Company, were revised to HK$2,375,700 and HK$1,267,200 respectively, with discretionary bonuses which will be payable according to the terms of the relevant bonus entitlement scheme of the Company.

Save for the remuneration packages for the above executive directors of the Company which were determined by the remuneration committee of the Company after taking into account their respective qualifications and experiences, all other directors' remuneration were determined by the board of directors (the "Board") of the Company after considering the recommendations of the remuneration committee of the Company.

OPERATING SEGMENT INFORMATION

Details of the operating segment information are set out in note 4 to the financial statements.

CONTINGENT LIABILITIES

Details of the contingent liabilities are set out in note 36 to the financial statements.

PLEDGE OF ASSETS

Details of the pledge of assets are set out in notes 13, 14, 18, 19, 20 and 23 to the financial statements.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

In 2011, the Company acquired the entire issued share capital of Hop Hing Fast Food Group Holdings Limited (formerly known as Summerfield Profits Limited). The acquisition was completed on 12 March 2012. Save as disclosed below under "Merger accounting for business combination under common control" in note 2.1 to the financial statements, the Group did not make any other material acquisition or disposal of subsidiaries or affiliated companies during the year under review.

OUTLOOK

The less robust economic outlook in Mainland China and the challenges that we experienced in 2012 may continue to impact us in the near future. However, we are cautiously optimistic about the medium to long term economic growth of Mainland China. Hence, we shall continue with our strategy of achieving steady long term sustainable growth. In rolling out our strategic store expansion plan, more weight will be put on street level stores, which are being less affected by the uncertain economy, and stores in second to third tier cities which have benefited from urbanisation over the last few years. We will continue to focus in the coming year on increasing the variety of our products and offering more choices for breakfast and tea time, for example, we have just introduced ramen to our product menu. Investment in enhancing our in-store dining environment will not only strengthen our brand but also attract more customers who will spend more time in our stores. We shall continue to strengthen our stringent up-stream supply chain management and increase the frequency of our voluntary quality testing. In addition, we shall improve our operating efficiency by implementing various measures, such as standardising and automation of our production processes. With efficient operations and effective cost control measures in place, the impact of the rise in food and labour costs could be managed and minimised. We believe that the above strategies and measures will bring us sustainable long term growth.

Our edible oil operation in Hong Kong will continue to upkeep its quality and healthy image, and we shall continue to introduce new quality and healthy products that meet market demand and customer preference. The new PRC edible oil operation team will make greater efforts in marketing and introducing "Lion & Globe", our group's flagship brand, to the higher income group of cities in Southern China. We will continue to review the prospects for this operation and explore alternatives for maximising shareholder value.

OUTLOOK *(continued)*

After the completion of the acquisition of the QSR business in the year, the profitability and financial position of the Group have been substantially improved. We shall continue to look for opportunities that may bring us long term growth of the business, as well as returns to shareholders.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the shareholders who are entitled to attend the AGM, the register of members of the Company will be closed from 3 June 2013 to 6 June 2013 (both days inclusive), during which period no share transfers will be registered.

In addition, in order to determine the shareholders who are entitled to receive the final dividend for the year ended 31 December 2012, the register of members of the Company will be closed from 12 June 2013 to 17 June 2013 (both days inclusive), during which period no share transfers will be registered.

In order to qualify for attending and voting at the forthcoming AGM, and the entitlement for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 31 May 2013 and 11 June 2013 respectively.

VOTE OF THANKS

We would like to thank all of our customers, suppliers, business associates and bankers for their continued support and members of our management team and staff for their hard work during the year.

By Order of the Board

Hung Ming Kei, Marvin
Chief Executive Officer
Hong Kong

19 March 2013

Over 100 Dairy Queen STORES in the franchise regions


Dairy Queen

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining **a high standard** of corporate governance practices and procedures.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions ("CP") of the former Code on Corporate Governance Practices (the "Old Code") and of the new Corporate Governance Code (the "CG Code") effective from 1 April 2012 as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the following:

– In respect of CP A.6.7 of the CG Code, Dr. Hon. Wong Yu Hong, Philip, *GBS*, and Mr. Sze Tsai To, Robert, independent non-executive directors, and Ms. Hung Chiu Yee, a non-executive director (resigned on 1 January 2013), were unable to attend the Company's annual general meeting held on 4 June 2012 ("2012 AGM") due to overseas or other business engagement.

– In respect of CP E.1.2 of the CG Code, Mr. Sze Tsai To, Robert, the chairman of the audit committee of the Company, was unable to attend the 2012 AGM due to overseas engagement. All other members of the audit committee attended the 2012 AGM.

The principles as set out in the CG Code have been applied in our corporate governance practice. To ensure strict compliance with the latest CG Code, the Board will review and update regularly the corporate governance policies and practices of the Company; review and monitor the continuous training of directors and senior management; and review and monitor the compliance and disclosure of legal and regulating requirements.

BUSINESS MODEL AND STRATEGY

The Board leads the Group's development of business model and strategy, and the management of the Company manages the implementation of strategy and business, follow up on the implementation status and report back to the Board from time to time. Details of the Group's Business Review and Financial Review in the year 2012 are set out in the "Management Discussion and Analysis" section in this Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct of dealings in securities of the Company by the directors. The Model Code also applies to "relevant employees" as defined in the CG Code.

Based on specific enquiry of the Company's directors, the directors confirmed that they complied with the required standards in the Model Code adopted by the Company throughout the financial year ended 31 December 2012.

BOARD OF DIRECTORS

Up to the date of publication of this Annual Report, the Board comprised eleven directors, including two non-executive directors, being Mr. Hung Hak Hip, Peter (Chairman) and Mr. Lee Pak Wing; six independent non-executive directors, being Dr. Hon. Wong Yu Hong, Philip, *GBS*, Mr. Sze Tsai To, Robert, Mr. Cheung Wing Yui, Edward, Mr. Seto Gin Chung, John, Hon. Shek Lai Him, Abraham, *SBS, JP* and Mr. Siu Wai Keung (appointed on 1 September 2012); and three executive directors, being Mr. Hung Ming Kei, Marvin, Mr. Wong Kwok Ying and Ms. Lam Fung Ming, Tammy. Biographical details of these directors which include relationship among themselves are set out under "Directors' Biographies" on pages 34 to 38 of this Annual Report.

The Board accepts that it is ultimately accountable and responsible for the performance and affairs of the Company. Although the Board bears overall responsibility for the Company, the management of the Company (including the executive directors) is the custodian and administrator of the day-to-day performance of the Company.

BOARD OF DIRECTORS *(continued)*

The Company has received a written annual confirmation of independence from each of the independent non-executive directors and considers them to be independent under Rule 3.13 of the Listing Rules.

The Board will meet at least four times a year and on other occasions when a Board decision is required on major issues. Directors may participate in meeting via telephone or video-conferencing link. Board consents are given by vote at board meetings and supplemented via circulation of written resolutions between board meetings.

During the year, there were seven full board meetings (including those with voting by communication) and seven full board circulations. Individual attendance records for full board meetings of the Company are set out on page 29 of this Annual Report.

Directors should understand their respective responsibilities as a director and the conduct and business activities of the Company. To this end, the Company is responsible for arranging and funding appropriate training and activities to all directors as and when necessary. All directors have provided their training records for the year under review to the company secretary. A summary of training received by directors during the year according to the records provided by our directors is as follows:

Summary of Directors' Training Records in 2012

Name of Director	Training activities including in-house activities/meetings, seminars/talks held by professions/ organizations and/or reading materials on relevant topics
Non-executive Directors	
Hung Hak Hip, Peter	✓
Lee Pak Wing	✓
Independent Non-executive Directors	
Wong Yu Hong, Philip	✓
Sze Tsai To, Robert	✓
Cheung Wing Yui, Edward	✓
Seto Gin Chung, John	✓
Shek Lai Him, Abraham	✓
Siu Wai Keung	✓
Executive Directors	
Hung Ming Kei, Marvin	✓
Wong Kwok Ying	✓
Lam Fung Ming, Tammy	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and Chief Executive Officer are separated and not performed by the same individual.

The Chairman's principal responsibility is to ensure effective running of the Board, enabling the Board as a whole to play a full and constructive part in the development and determination of the Group's business model, strategies and overall commercial objectives. The Chief Executive Officer is responsible for the overall day-to-day management of the Group's businesses and achieving the business model, strategies and commercial objectives agreed by the Board.

The Chairman of the Company is Mr. Hung Hak Hip, Peter and the Chief Executive Officer is Mr. Hung Ming Kei, Marvin.

NON-EXECUTIVE DIRECTORS' TERM OF OFFICE

The non-executive directors of the Company are appointed for specific terms, subject to retirement and re-election in accordance with the provisions of the amended and restated memorandum and articles of association of the Company.

REMUNERATION COMMITTEE

The remuneration committee of the Company was established with a particular responsibility to review the Company's remuneration policy for directors and members of the senior management. For details of the role and function of the committee, please refer to its terms of reference which aligns with the CP of the CG Code and have been posted on the websites of Hong Kong Exchange and Clearing Limited ("HKEx") and the Company.

As at 31 December 2012, the remuneration committee comprised Mr. Cheung Wing Yui, Edward (chairman of the committee), Mr. Sze Tsai To, Robert and Hon. Shek Lai Him, Abraham, *SBS, JP*, all of them are independent non-executive directors of the Company and Mr. Hung Hak Hip, Peter, the non-executive Chairman of the Company. Individual attendance records for the remuneration committee meetings are set out on page 29 of this Annual Report.

During the year, the works of the committee included (i) review and approval of remuneration proposal in relation to two executive directors; (ii) making recommendation to the Board on the remuneration of non-executive directors; and (iii) making recommendation to the Board on the remuneration of the executive director and chief executive officer of the Group.

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are reviewed by the remuneration committee with reference to the directors' duties, responsibilities and performance and the results of the Group. Information relating to the remuneration of each director for 2012 is set out in note 8 to the financial statements.

NOMINATION COMMITTEE

To comply with the CG code, a nomination committee of the Company has been established with a particular responsibility to review the Board's structure, size and composition and to make recommendation to the Board on the selection, appointment and re-appointment of directors of the Company. For details of the role and function of the committee, please refer to its terms of reference which aligns with the CP of the CG Code and have been posted on the websites of HKEx and the Company.

As at 31 December 2012, the nomination committee comprised Mr. Hung Hak Hip, Peter (chairman of the committee), Mr. Hung Ming Kei, Marvin, an executive director and the chief executive officer of the Company, Dr. Wong Yu Hong, Philip, *GBS*, Mr. Seto Gin Chung, John and Hon. Shek Lai Him, Abraham, *SBS, JP*, all of them are independent non-executive directors of the Company. Individual attendance records for the nomination committee meetings are set out on page 29 of this Annual Report.

During the year and up to the date of this Annual Report, the works of the committee included (i) reviewing the Board structure, size and composition; (ii) assessing the independence of independent non-executive directors; (iii) making recommendation to the Board on appointment of independent non-executive director; and (iv) making recommendation to the Board on re-appointment of directors.

AUDIT COMMITTEE

The Company has established an audit committee with terms of reference aligned with the CP of the CG Code for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. For details of the role and function of the committee, please refer to its terms of reference which aligns with the CP of the CG Code and have also been posted on the websites of HKEx and the Company.

As at 31 December 2012, the audit committee comprised Mr. Sze Tsai To, Robert (chairman of the committee), Mr. Cheung Wing Yui, Edward and Mr. Seto Gin Chung, John, all of them are independent non-executive directors of the Company, and Mr. Hung Hak Hip, Peter, the non-executive Chairman of the Company. The chairman of the audit committee has the required appropriate professional financial qualifications and experience. Individual attendance records for audit committee meetings are set out on page 29 of this Annual Report.

In 2012, the works of the audit committee included (i) reviewing with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the Group's audited accounts for the year ended 31 December 2011; (ii) reviewing the audit plan of the Group for 2012; (iii) making recommendation to the Board on reappointment of external auditors; and (iv) reviewing interim report for the six months ended 30 June 2012. Subsequent to the year end, the audit committee of the Company reviewed the Group's results for the year ended 31 December 2012.

AUDITORS' REMUNERATION

During 2012, the fees payable to Ernst & Young, the Company's external auditors, for the Group's audit services amounted to HK$3,388,000. Ernst & Young also provided the Group with non-audit services, including the review of interim report at a fee of HK$930,000 and tax services fee of HK$86,000.

FINANCIAL REPORTING

The directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. As at 31 December 2012, the directors did not aware of any material uncertainties relating to events or conditions which might cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the financial statements of the Company for the year ended 31 December 2012 were prepared on a going concern basis.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditors' Report included in this Annual Report.

INTERNAL CONTROL

The Board is responsible for the Group's system of internal control that is designed to facilitate effective and efficient operations and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. In devising internal controls, the Group has regard to the nature and extent of the risk, the likelihood of it crystallizing and the cost of controls. A system of internal control is designed to manage, but not eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute, assurance against the risk of material misstatement, fraud or losses.

The Board, with the assistance of its audit committee, assesses the effectiveness of internal control of the Group by considering reviews performed by the management, the independent auditors and the internal assessment report outsourced and performed by a firm of qualified accountants. Such reviews during the financial year ended 31 December 2012 did not reveal any significant defects.

The aforesaid is an ongoing process for identifying, evaluating and managing of significant business, financial, compliance and operational risks specific to the Group. Relevant recommendations made by the audit committee, the independent auditors and the external accountants who perform reviews at least annually would be implemented, if appropriate, as soon as possible by the Group to further enhance its internal control policies, procedures and practices.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting and putting forward proposals at general meetings

Pursuant to Article 64 of the Company's Memorandum and Articles of Association, one or more shareholders holding not less than one-tenth of the paid up capital of the Company shall have the right to deposit a written requisition to the Board, or the secretary of the Board, specifying the requested business to be considered and, if the Board thinks fit, the Board will proceed to convene an extraordinary general meeting ("EGM") for the business specified in such requisition. If within 21 days of such deposit of written requisition, the Board fails to proceed to convene such EGM, the requesting shareholder(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by him (them) as a result of the failure of the Board shall be reimbursed to him (them) by the Company.

SHAREHOLDERS' RIGHTS *(continued)*

Procedures for shareholders to propose a person for election as a director

Pursuant to Article 113 of the Company's Memorandum and Articles of Association, shareholder may lodge a notice in writing of the intention to propose a person for election as a Director and a notice in writing by that person of his willingness to be elected at the Company's Head Office or at the Company's Registered Office provided that the period for lodgment of the notices required will commence no earlier than the day after the dispatch of the notice of general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and where such period shall be at least 7 days.

Shareholder should note that election of a Director of the Company is subject to other relevant parts of the Company's Memorandum and Articles of Association, the Listing Rules, and applicable laws in Cayman Islands and Hong Kong.

Head Office	:	Units E&F, 2/F Hop Hing building, 9 Ping Tong Street East, Tong Yan San Tsuen, Yuen Long, New Territories, Hong Kong
Registered Office	:	Clifton House, 75 Fort Street, P.O. Box 1350 GT, Grand Cayman, KY1-1108, Cayman Islands

Sending enquiries to the Board

Shareholders may raise their enquires with the Board at the general meetings of the Company or may at any time send their written enquires to the Board by delivering it to the company secretary of the Company whose contact details are as follows:

Hop Hing Group Holdings Limited
Units E&F, 2/F Hop Hing building
9 Ping Tong Street East, Tong Yan San Tsuen
Yuen Long, New Territories
Hong Kong
Tel: 852-2785 2681
Fax: 852-2786 2155
Email: ir@hophing.com

CONSTITUTIONAL DOCUMENTS

There was no change to the Company's Memorandum and Articles of Association during the year 2012. A copy of the consolidated version of the Memorandum and Articles of Association has been posted on the websites of HKEx and the Company.

COMMUNICATION WITH SHAREHOLDERS

The Board makes its endeavour to maintain an ongoing and transparent communication with all shareholders and, in particular, will communicate with shareholders in general meetings and encourage their participation. The Company will also communicate with its shareholders by various other means, such as publication of annual and interim reports, announcements, circulars and additional information on the Group's business activities and development on the Company's website: http://www.hophing.com. A shareholders' communication policy of the Company has been established and posted on the Company's website.

DIRECTORS'/COMMITTEE MEMBERS' ATTENDANCE IN 2012

	Meetings attended/eligible to attend			
Name of Director	**Full Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Non-executive Directors				
Hung Hak Hip, Peter				
(Chairman of the Board and of the nomination committee)	7/7	2/2	1/1	1/1
Hung Chiu Yee*	4/7	N/A	N/A	N/A
Lee Pak Wing	7/7	N/A	N/A	N/A
Independent Non-executive Directors				
Wong Yu Hong, Philip	5/7	N/A	N/A	1/1
Sze Tsai To, Robert				
(Chairman of the audit committee)	5/7	2/2	1/1	N/A
Cheung Wing Yui, Edward				
(Chairman of the remuneration committee)	5/7	2/2	1/1	N/A
Seto Gin Chung, John	7/7	2/2	N/A	1/1
Shek Lai Him, Abraham	7/7	N/A	1/1	1/1
Siu Wai Keung**	3/3	N/A	N/A	N/A
Executive Directors				
Hung Ming Kei, Marvin***				
(Chief Executive Officer)	6/7	N/A	N/A	1/1
Wong Kwok Ying	7/7	N/A	N/A	N/A
Lam Fung Ming, Tammy	7/7	N/A	N/A	N/A

* Ms. Hung Chiu Yee resigned on 1 January 2013
** Mr. Siu Wai Keung was appointed on 1 September 2012
*** Mr. Hung Ming Kei, Marvin was appointed on 12 March 2012

We have the Only EDIBLE OIL REFINERY in Hong Kong

獅球嘜
DHA
花生食油
DHA
腦部
發展之選
獅球嘜
DHA
芥花籽油
DHA
腦部
發展之選
獅球嘜
DHA
粟米油
DHA
腦部
發展之選

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Upon the completion of the acquisition (the "Acquisition") of the entire share capital of Hop Hing Fast Food Group Holdings Limited (formerly known as Summerfield Profits Limited) on 12 March 2012 (the "Completion"), the subsidiaries of the Group are principally engaged in (a) the operation of quick service restaurant chain business ("QSR Business"), primarily selling rice bowl under the brand name Yoshinoya (吉野家) and ice-cream under brand name Dairy Queen (冰雪皇后), in the certain franchise regions in the PRC; and (b) the purchasing, extracting, refining, blending, bottling, marketing and distribution of edible oils and fats for consumption by households and restaurants in Hong Kong, Macau, the PRC and overseas countries.

RESULTS AND DIVIDENDS

The Group's profits for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 51 to 119.

Subsequent to the end of the reporting period, on 19 March 2013, the directors recommended the payment of a final dividend of HK0.25 cent per ordinary share in respect of the year. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting ("AGM") to be held on 6 June 2013. These financial statements do not reflect the final dividend payable.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, is set out on page 120. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS, AND RESERVES

As approved in the extraordinary general meeting of the Company held on 17 January 2012, the authorized share capital of the Company was increased from HK$80,000,000 to HK$1,480,000,000 by the creation of additional 14,000,000,000 unissued shares of HK$0.10 each.

On 12 March 2012, the Company issued the perpetual subordinated convertible securities (the "Convertible Securities") with a principal amount of HK$3,475,000,000 with a conversion price initially at HK$0.37 per share for the settlement of the consideration of the Acquisition. As announced by the Company on 28 September 2012, all the Convertible Securities were fully converted and a total of 9,391,891,892 ordinary shares of the Company were allotted accordingly.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS, AND RESERVES *(continued)*

Details of the movements in the Company's share capital, share options and warrants during the year, together with the reasons therefor, are set out in notes 28 and 30 to the financial statements. The movements in the reserves of the Company and the Group during the year are set out in note 31(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Details of the reserves of the Company are set out in note 31(b) to the financial statements.

PURCHASE, SALE OR REDEMPTION OF OWN LISTED SECURITIES

There were no purchases, sales or redemptions by the Company or any of its subsidiaries of the listed securities of the Company during the year.

BORROWINGS

Particulars of the borrowings of the Group at 31 December 2012 are set out in note 23 to the financial statements.

DIRECTORS

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

Hung Hak Hip, Peter* *(Chairman)*	
Hung Ming Kei, Marvin *(Chief Executive Officer)*	(appointed on 12 March 2012)
Wong Yu Hong, Philip**	
Sze Tsai To, Robert**	
Cheung Wing Yui, Edward **	
Seto Gin Chung, John**	
Shek Lai Him, Abraham**	
Siu Wai Keung**	(appointed on 1 September 2012)
Hung Chiu Yee*	(resigned on 1 January 2013)
Lee Pak Wing*	
Wong Kwok Ying	
Lam Fung Ming, Tammy	

* Non-executive directors
** Independent non-executive directors

All directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's amended and restated memorandum and articles of association. At the AGM, Dr. Hon. Wong Yu Hong, Philip, *GBS,* Seto Gin Chung, John, Siu Wai Keung and Wong Kwok Ying, will retire and, being eligible, offer themselves for re-election.

Pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has received a written annual confirmation of independence from each of the independent non-executive directors confirming they had met the independence guidelines set out in Rule 3.13 during the year as at 31 December 2012, and as such the Company considered them to be independent.

DIRECTORS' BIOGRAPHIES

(a) Non-executive directors

Mr. Hung Hak Hip, Peter, aged 68, Chairman, is a chartered accountant and worked in the Hong Kong securities industry before joining the Group in 1975. Mr. Hung is the brother of Ms. Hung Chiu Yee, a former non-executive director of the Company, and an uncle of Mr. Hung Ming Kei, Marvin, an executive director and the Chief Executive Officer of the Company. As at the date of this report, Mr. Hung and his spouse were beneficial owners of the trustee of a discretionary trust, which was a substantial shareholder of the Company. By virtue of the Securities and Futures Ordinance, Mr. Hung is deemed to be a substantial shareholder of the Company as disclosed in the section under "Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares".

Dr. Hon. Wong Yu Hong, Philip, *GBS, JD, PhD*, aged 74, appointed a director of the Group in 1989, is a prominent businessman and Life Honorary Chairman of The Chinese General Chamber of Commerce. Dr. Wong received the Gold Bauhinia Star Award from the Hong Kong Special Administrative Region ("HKSAR") Government in 2003 and the Courvoisier Awards for Business Excellency from the then Chief Justice of Hong Kong, Sir Denys Roberts, in 1986. He is a non-executive director of Asia Financial Holdings Limited which is a Hong Kong listed company. He was also the non-executive chairman of Qin Jia Yuan Media Services Company Limited up to 21 March 2012.

DIRECTORS' BIOGRAPHIES *(continued)*

(a) Non-executive directors *(continued)*

Mr. Sze Tsai To, Robert, aged 72, was appointed a director of the Group on 1 June 2000. Mr. Sze is a fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants and was a partner in an international firm of accountants with which he practised for over 20 years. He is also a non-executive director of a number of Hong Kong listed companies.

Mr. Cheung Wing Yui, Edward, aged 63, appointed a director of the Group in 1989, is a consultant of Woo, Kwan, Lee & Lo, solicitors. Mr. Cheung is also a qualified solicitor in England and Singapore and a member of CPA Australia. He is a non-executive director of a number of Hong Kong listed companies including Tai Sang Land Development Limited, Tianjin Development Holdings Limited, Sunevision Holdings Limited, SRE Group Limited and SmarTone Telecommunications Holdings Limited. He is also an independent non-executive director of Agile Property Holdings Limited which is a Hong Kong listed company.

DIRECTORS' BIOGRAPHIES *(continued)*

(a) Non-executive directors *(continued)*

Mr. Seto Gin Chung, John, aged 64, appointed a director of the Group on 25 April 2006, is a director of Pacific Eagle Asset Management Limited since January 2006. He is an independent non-executive director of China Everbright Limited and Kowloon Development Company Limited. He was the Chief Executive Officer of HSBC Broking Services (Asia) Limited from 1982 to 2001. He was a non-executive director of Hong Kong Exchanges and Clearing Limited from 2000 to 2003, a council member of the Stock Exchange from 1994 to 2000 and was the first vice chairman of the Stock Exchange from 1997 to 2000. He was also appointed on 28 October 2010 a non-executive director of Sateri Holdings Limited, which became a listed company on the Stock Exchange on 8 December 2010. He holds a Master of Business Administration degree from New York University, USA and has over 30 years of experience in the securities and futures industry.

Hon. Shek Lai Him, Abraham, *SBS, JP*, aged 67, was appointed a director of the Group on 1 January 2007. Mr. Shek graduated from the University of Sydney, Australia with a Bachelor of Arts degree. He is a member of the Legislative Council for the HKSAR representing real estate and construction functional constituency since 2000. Currently, Mr. Shek is a member of the Court of The Hong Kong University of Science & Technology and member of the Court and Council of The University of Hong Kong. He is also a director of The Hong Kong Mortgage Corporation Limited and the vice chairman of Independent Police Complaints Council. Mr. Shek was appointed as a Justice of the Peace in 1995 and was awarded the Silver Bauhinia Star in 2007. He is an independent non-executive director of a number of Hong Kong listed companies including NWS Holdings Limited, Midas International Holdings Limited, Paliburg Holdings Limited, Lifestyle International Holdings Limited, Chuang's Consortium International Limited, ITC Corporation Limited, Titan Petrochemicals Group Limited, Country Garden Holdings Company Limited, MTR Corporation Limited, Hsin Chong Construction Group Limited, Chuang's China Investments Limited, SJM Holdings Limited, Dorsett Hospitality International Limited, ITC Properties Group Limited, China Resources Cement Holdings Limited and Lai Fung Holdings Limited. Mr. Shek is also an independent non-executive director of Eagle Asset Management (CP) Limited, the manager of Champion Real Estate Investment Trust and an independent non-executive director of Regal Portfolio Management Limited, the manager of Regal Real Estate Investment Trust.

DIRECTORS' BIOGRAPHIES *(continued)*

(a) Non-executive directors *(continued)*

Mr. Siu Wai Keung, aged 59, was appointed a director of the Group on 1 September 2012. Mr. Siu is currently an independent non-executive director of CITIC Pacific Limited and China Communications Services Corporation Limited (both companies are listed on the Main Board of the Stock Exchange), GuocoLand Limited (a company listed on the Singapore Stock Exchange), Hua Xia Bank Co., Limited and Beijing Hualian Hypermarket Company Limited (both companies are listed on the Shanghai Stock Exchange). Mr. Siu graduated from the University of Sheffield, United Kingdom, with a Bachelor of Arts degree in Accounting and Economics in 1979. He first joined the Manchester office of KPMG in the United Kingdom in 1979 and was subsequently transferred to KPMG Hong Kong in 1986. In 1993, Mr. Siu became a partner of KPMG Hong Kong. Mr. Siu had been with KPMG for almost 30 years and has extensive experience in providing services to both foreign and domestic Chinese companies. He also has in-depth knowledge in advising on foreign direct investments in the People's Republic of China. Prior to his retirement in March 2010, Mr. Siu was the Senior Partner of the Beijing Office of KPMG as well as a Senior Partner of the Northern Region of KPMG China. Mr. Siu is a fellow member of the Institute of Chartered Accountants in England and Wales and of the Hong Kong Institute of Certified Public Accountants.

Mr. Lee Pak Wing, aged 67, holds a Master of Science degree in production technology. He joined the Group in 1979 prior to which he was a systems manager with Tyco Industries Limited. He was formerly the Vice-chairman of the Group.

DIRECTORS' BIOGRAPHIES *(continued)*

(b) Executive directors

Mr. Hung Ming Kei, Marvin, aged 42, is the Chief Executive Officer of the Group with overall responsibility for the quick service restaurant chain business and the edible oils business of the Group. He was appointed a director and the Chief Executive Officer of the Group on 12 March 2012. Mr. Hung holds a Bachelor's degree in Science majoring in Accounting from the University of Southern California in the United States of America in 1992 and a Master's degree in Business Administration from China Europe International Business School. Mr. Hung has approximately 20 years of experience in business management. Mr. Hung is a nephew of Mr. Hung Hak Hip, Peter and Ms. Hung Chiu Yee, a former non-executive director of the Company, and a son of Mr. Hung Hak Yau, a substantial shareholder of the Company by virtue of the Securities and Futures Ordinance.

Mr. Wong Kwok Ying, aged 53, is the Group Comptroller and the Company Secretary of the Group and was appointed a director of the Group on 10 January 2000. Mr. Wong is a certified public accountant (practising) in Hong Kong and a fellow member of the Hong Kong Institute of Certified Public Accountants. He has over 30 years' finance, accounting and audit experience. Prior to joining the Group in 1990, he worked with one of the international accounting firms in Hong Kong.

Ms. Lam Fung Ming, Tammy, aged 49, is the Chief Operating Officer responsible for the sales activities, manufacturing, quality assurance and product development of the Group's edible oil business. She holds a Bachelor of Science degree in Food Science and Technology and a Higher Diploma in Chemical Technology from the Hong Kong Polytechnic University. She has over 20 years' experience in the oil and food industry. Ms. Lam joined the Group in 1990 and was appointed a director of the Group on 1 November 2004.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than the transactions disclosed under the headings "Continuing Connected Transactions" and "Connected Transactions", none of the directors had a significant interest, either 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 during the year:

DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the AGM was a party to any service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

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

As at 31 December 2012, the interests of the directors and chief executive in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"), were as follows:

Interests in ordinary shares of the Company

	Number of shares held, capacity and nature of interest					
Name of director	**Directly and beneficially owned**	**Through spouse or minor children**	**Through controlled corporation**	**Beneficiary of a trust**	**Total**	**Percentage of the Company's issued share capital**
Hung Hak Hip, Peter	–	1,675,974	4,087,508,916 (notes i to v)	–	4,089,184,890	41.235%
Hung Ming Kei, Marvin	104,163	–	–	–	104,163	0.001%
Wong Yu Hong, Philip	2,045,565	–	–	–	2,045,565	0.021%
Sze Tsai To, Robert	2,045,565	–	–	–	2,045,565	0.021%
Cheung Wing Yui, Edward	2,523,165	–	–	–	2,523,165	0.025%
Seto Gin Chung, John	417,373	–	–	–	417,373	0.004%
Shek Lai Him, Abraham	–	–	–	–	–	–
Siu Wai Keung	7,400,000	–	–	–	7,400,000	0.075%
Hung Chiu Yee*	5,601,726	–	–	160,246,923 (note iii)	165,848,649	1.672%
Lee Pak Wing	2,376,052	–	–	438,457,296 (note iv)	440,833,348	4.445%
Wong Kwok Ying	–	–	–	–	–	–
Lam Fung Ming, Tammy	–	–	–	–	–	–

* *Ms. Hung Chiu Yee resigned as a director of the Company effective from 1 January 2013.*

Notes:

(i) 3,314,217,298 shares were beneficially owned by a discretionary trust whose discretionary beneficiaries included Mr. Hung Hak Hip, Peter and his spouse. Both of them are beneficial owners of the trustee of the discretionary trust.

(ii) 166,787,613 shares were beneficially owned by a family discretionary trust whose discretionary beneficiaries included Mr. Hung Hak Hip, Peter. He is the sole beneficial owner of the trustee of the family discretionary trust.

(iii) 160,246,923 shares were beneficially owned by a family discretionary trust whose discretionary beneficiaries included Mr. Hung Hak Hip, Peter and Ms. Hung Chiu Yee. Mr. Hung is the sole beneficial owner of the trustee of the family discretionary trust.

(iv) 438,457,296 shares were beneficially owned by a discretionary trust whose discretionary beneficiaries included Mr Hung Hak Hip, Peter and Mr. Lee Pak Wing. Mr. Hung is the sole beneficial owner of the trustee of the discretionary trust.

(v) 7,799,786 shares held by Mr. Hung Hak Hip, Peter through a controlled corporation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Interests in warrants of the Company

	Number of warrants held, capacity and nature of interest				
Name of director	**Directly and beneficially owned**	**Through spouse or minor children**	**Through controlled corporation**	**Beneficiary of a trust**	**Total**
Hung Hak Hip, Peter	–	335,194	66,966,862 (notes i to iii)	–	67,302,056
Hung Ming Kei, Marvin	20,832	–	–	–	20,832
Wong Yu Hong, Philip	409,113	–	–	–	409,113
Sze Tsai To, Robert	409,113	–	–	–	409,113
Cheung Wing Yui, Edward	504,633	–	–	–	504,633
Seto Gin Chung, John	83,474	–	–	–	83,474
Shek Lai Him, Abraham	–	–	–	–	–
Siu Wai Keung	–	–	–	–	–
Hung Chiu Yee*	–	–	–	32,049,384 (note ii)	32,049,384
Lee Pak Wing	475,210	–	–	–	475,210
Wong Kwok Ying	–	–	–	–	–
Lam Fung Ming, Tammy	–	–	–	–	–

* *Ms. Hung Chiu Yee resigned as a director of the Company effective from 1 January 2013.*

Notes:

(i) 33,357,522 warrants were beneficially owned by a family discretionary trust whose discretionary beneficiaries included Mr. Hung Hak Hip, Peter. He is the sole beneficial owner of the trustee of the family discretionary trust.

(ii) 32,049,384 warrants were beneficially owned by a family discretionary trust whose discretionary beneficiaries included Mr. Hung Hak Hip, Peter and Ms. Hung Chiu Yee. Mr. Hung is the sole beneficial owner of the trustee of the family discretionary trust.

(iii) 1,559,956 warrants held by Mr. Hung Hak Hip, Peter through a controlled corporation.

Save as disclosed above and the share options granted to the directors as disclosed under the heading "Share Options" in note 30 to the financial statements, as at 31 December 2012, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

Details of the Company's share option scheme are disclosed in note 30 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above and "Share Options" in note 30 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or their respective spouse or minor children to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2012, the interests of substantial shareholders/other persons in the shares and underlying shares of the Company, as notified to the Company and recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Interests in Ordinary Shares of the Company

Name of holder	Notes	Number of ordinary shares held	Percentage of the Company's issued share capital
True Force Ventures Limited	(i)	1,408,783,784	14.21%
Earn Field International Limited	(ii)	1,408,783,784	14.21%
Konview Building (2008) Limited	(iii)	2,883,317,298	29.07%
H H Hung (2008) Limited	(iv)	3,314,217,298	33.42%
Ever Intellect Limited	(v)	765,491,832	7.72%
Hung Hak Hip, Peter	(vi)	4,089,184,890	41.23%
Hung Diana Wan Ling	(vii)	4,089,184,890	41.23%
Winner Planet Limited	(viii)	1,408,783,784	14.21%
Creative Mount Limited	(ix)	1,587,229,730	16.01%
North China Fast Food (2008) Limited	(x)	3,314,217,298	33.42%
Hung Hak Yau	(xi)	3,315,686,546	33.43%
Arisaig Asia Consumer Fund Limited	(xii)	981,288,000	9.90%
Arisaig Partners (Mauritius) Limited	(xiii)	981,288,000	9.90%
Cooper Lindsay William Ernest	(xiv)	981,288,000	9.90%

Notes:

(i) The registered holder of the shares disclosed above.

(ii) The registered holder of the shares disclosed above.

(iii) Konview Building (2008) Limited indirectly holds the entire issued share capital of certain registered shareholders including True Force Ventures Limited and Earn Field International Limited. The company is deemed to be interested in the shares mentioned in notes (i) and (ii) respectively.

(iv) H H Hung (2008) Limited indirectly controls more than one-third of the voting power at general meetings of a registered shareholder and Konview Building (2008) Limited. The company is deemed to be interested in the shares mentioned in note (iii).

(v) Ever Intellect Limited indirectly holds the entire issued share capital of certain registered shareholders and the company is deemed to be interested in the shares disclosed above.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Interests in Ordinary Shares of the Company *(continued)*

Notes: *(continued)*

(vi) As disclosed in the section under "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares", by virtue of the SFO, Mr. Hung Hak Hip, Peter is deemed to be interested in:

(a) 3,314,217,298 shares held through H H Hung (2008) Limited mentioned in note (iv);

(b) 765,491,832 shares held through Ever Intellect Limited mentioned in note (v);

(c) 7,799,786 shares held through a controlled corporation; and

(d) 1,675,974 shares held through Mr. Hung Hak Hip, Peter's spouse or minor children.

(vii) Mrs. Hung Diana Wan Ling is the wife of Mr. Hung Hak Hip, Peter and is deemed to be interested in the shares mentioned in note (vi).

(viii) The registered holder of the shares disclosed above.

(ix) The registered holder of the shares disclosed above.

(x) North China Fast Food (2008) Limited indirectly controls more than one-third of the voting power at general meetings of certain registered shareholders including Winner Planet Limited and Creative Mount Limited. The company is deemed to be interested in the shares mentioned in notes (viii) and (ix) respectively.

(xi) Mr. Hung Hak Yau holds the entire issued share capital of North China Fast Food (2008) Limited and he is deemed to be interested in the shares mentioned in note (x). He is also interested in 1,469,248 shares held through a controlled corporation.

(xii) The holder of the shares disclosed above.

(xiii) Arisaig Partners (Mauritius) Limited is the fund manager of Arisaig Asia Consumer Fund Limited and the company is deemed to be interested in the shares mentioned in note (xii).

(xiv) Mr. Cooper Lindsay William Ernest indirectly holds one-third of the voting power at general meetings of Arisaig Partners (Mauritius) Limited and he is deemed to be interested in the shares mentioned in note (xiii).

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Interests in Warrants of the Company

Name of holder	Notes	Number of Warrants held
Hung Hak Hip, Peter	(i)	67,302,056
Hung Diana Wan Ling	(ii)	67,302,056
Ever Intellect Limited	(iii)	65,406,906
Hung Hak Yau	(iv)	293,849

Notes:

(i) As disclosed in the section under "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares", by virtue of the SFO, Mr. Hung Hak Hip, Peter is deemed to be interested in:

(a) 65,406,906 warrants held through Ever Intellect Limited mentioned in note (iii);

(b) 1,559,956 warrants held through a controlled corporation; and

(c) 335,194 warrants held through Mr. Hung Hak Hip, Peter's spouse or minor children.

(ii) Mrs. Hung Diana Wan Ling is the wife of Mr. Hung Hak Hip, Peter and is deemed to be interested in the warrants held by Mr. Hung Hak Hip, Peter mentioned in note (i).

(iii) Ever Intellect Limited indirectly holds the entire issued share capital of certain registered warrantholders and the company is deemed to be interested in the warrants disclosed above.

(iv) Mr. Hung Hak Yau is interested in the warrants disclosed above through a controlled corporation.

Save as disclosed above, as at 31 December 2012, the Company had not been notified of any persons other than the directors of the Company whose interests are set out in the sections "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" and "Share Option Scheme" above, who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

Completion of the Acquisition of Hop Hing Fast Food Group Holdings Limited (formerly known as Summerfield Profits Limited) ("Hop Hing Fast Food")

On 1 December 2011, the Company and Queen Board Limited (the "Seller") entered into an acquisition agreement pursuant to which the Seller agreed to sell the entire issued share capital of Hop Hing Fast Food and its subsidiaries and the loans (the "Loan") in the sum of approximately HK$44 million owed by Hop Hing Fast Food to the Seller and its associates to the Company, for a total consideration of HK$3,475 million to be satisfied by the issue of convertible securities by the Company to the Seller (or to its appointed nominee(s)). The transaction was completed on 12 March 2012 and a total principal amount of HK$3,475 million convertible securities had been issued to the Seller's appointed nominees as settlement accordingly. On 28 September 2012, all the convertible securities held by the Seller or its appointed nominees had been fully converted and a total of 9,391,891,892 ordinary shares had been allotted accordingly. As the Seller is an associate of the substantial shareholder of the Company, the entering into the acquisition agreement constituted a connected transaction under the Listing Rules.

Details of the transaction were set out in the announcements dated 1 December 2011, 12 March 2012 and 28 September 2012 and the circular dated 30 December 2011 of the Company.

Acquisition of Beijing Nanhe Hua Nong Agricultural Company Limited

On 28 September 2012, Dragon Bloom Investments Limited ("Dragon Bloom"), an indirectly wholly-owned subsidiary of the Company, entered into an acquisition agreement ("Acquisition Agreement"), as the purchaser, with Beijing Hop Hing Long Catering Limited, a company indirectly wholly-owned by Mr. Hung Hak Hip, Peter, Ms. Hung Wan Ling, Diana and Mr. Hung Hak Yau, substantial shareholders of the Company, as seller, for the acquisition of the entire equity interests in Beijing Nanhe Hua Nong Agricultural Company Limited ("Nanhe Acquisition"), a limited liability company incorporated in the PRC, for a cash consideration of RMB1,560,000 (approximately HK$1,900,000). The Nanhe Acquisition was completed in November 2012.

Details of the transaction were set out in the announcement dated 28 September 2012 of the Company.

CONTINUING CONNECTED TRANSACTIONS

(i) Tenancy Agreements

On 21 September 2009, Hop Hing Oil Factory Limited ("HHOF"), an indirect wholly-owned subsidiary of the Company, entered into two tenancy agreements (the "Old Tenancy Agreements"), as the tenant, with Wytak Limited ("Wytak"), as the landlord, for renting certain premises from Wytak for the period from 1 August 2009 to 31 July 2012.

Upon the expiry of the Old Tenancy Agreements and on 28 September 2012, the tenant and the landlord entered into two tenancy agreements (the "New Tenancy Agreements") for renting certain premises for two years commencing on 1 August 2012 to 31 July 2014.

CONTINUING CONNECTED TRANSACTIONS *(continued)*

(i) Tenancy Agreements *(continued)*

The aggregate rent paid under the Old Tenancy Agreements and the New Tenancy Agreements by the Group in the period from 1 January 2012 to 31 July 2012 and from 1 August 2012 to 31 December 2012 were HK$2,661,120 and HK$2,370,000, respectively, which did not exceed the annual threshold under the Listing Rules.

As Mr. Hung Hak Hip, Peter, a non-executive director of the Company, together with his spouse, held the entire issued share capital of the trustee of a discretionary trust which indirectly held 51.8% interest of the landlord. The landlord was therefore a connected person and an associate of Mr. Hung Hak Hip, Peter and the entering into the Old Tenancy Agreements and the New Tenancy Agreements constituted connected transactions under the Listing Rules.

Details of the transactions contemplated by the Old Tenancy Agreements and the New Tenancy Agreements were set out in the announcements dated 21 September 2009 and 28 September 2012 of the Company respectively.

(ii) PRC Tenancy Agreement and Termination Agreement

On 28 September 2012, Beijing Yoshinoya Fast Food Company Limited ("BJ Yoshinoya"), an indirect wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "PRC Tenancy Agreement"), as the tenant, with Fair Ocean Limited ("Fair Ocean"), as the landlord, and an independent third party as property agent, for the leasing of a premises located in the PRC ("PRC Premises") from Fair Ocean for two years from 1 August 2012 to 31 July 2014. The PRC Premises has been used by Mr. Hung Ming Kei, Marvin, an executive Director and the Chief Executive Officer of the Company, for residential purposes.

The rent paid under the PRC Tenancy Agreement by the Group in the year ended 31 December 2012 was RMB150,000.

On 21 December 2012, BJ Yoshinoya, Fair Ocean and an independent third party as property agent entered into a termination agreement ("Termination Agreement") pursuant to which the PRC Tenancy Agreement was terminated with effect from 1 January 2013. Pursuant to the Termination Agreement, none of the parties to the Termination Agreement was required to make any payment to each other.

As at 31 December 2012, Fair Ocean was indirectly held as to 100% by Mr. Hung Hak Yau. Mr. Hung Hak Yau is a substantial shareholder of the Company and is the father of Mr. Hung Ming Kei, Marvin. Fair Ocean is therefore a connected person of the Company under Chapter 14A of the Listing Rules. As Mr. Hung Hak Hip, Peter and Mr. Hung Hak Yau are brothers, Fair Ocean is an associate of Mr. Hung Hak Hip, Peter under Rule 1.01 of the Listing Rules.

Details of the transactions in respect of the PRC Tenancy Agreement and the Termination Agreement were set out in the announcements dated 28 September 2012 and 21 December 2012 of the Company respectively.

CONTINUING CONNECTED TRANSACTIONS *(continued)*

(iii) Sales Agreement

Panyu Hop Hing Oils & Fats Co. Ltd. ("Panyu Hop Hing"), an indirect wholly-owned subsidiary of the Company, entered into a sales agreement (the "Sales Agreement") with Shenzhen You Rong Retail Co. Ltd. ("Shenzhen You Rong") on 24 November 2010 for the sale of various edible oil products manufactured by the Group to Shenzhen You Rong in the three financial years ending 31 December 2013.

The maximum aggregate annual value of the sales by Panyu Hop Hing to Shenzhen You Rong under the Sales Agreement for each of the three financial years ending 31 December 2013 is estimated not to exceed RMB7,200,000 (equivalent to approximately HK8,899,876 at the then exchange rate).

The aggregate sales value by Panyu Hop Hing to Shenzhen You Rong under the Sales Agreement in the year ended 31 December 2012 was approximately HK$3,663,000.

As Shenzhen You Rong was an associate of the substantial shareholder of the Company, the entering into the Sales Agreement and all transactions contemplated thereunder constituted continuing connected transactions of the Company under the Listing Rules.

Details of the Sales Agreement were set out in the announcement dated 24 November 2010.

Listing Rules Implications

In respect of the (i) Tenancy Agreements; (ii) PRC Tenancy Agreement; and (iii) Sales Agreement which constituted continuing connected transactions, the Company has fully complied with the reporting requirements under Rules 14A.45 to 14A.47 of the Listing Rules and annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules.

Independent shareholders' approval of these transactions is not required as the threshold stipulated under Rule 14A.34 of the Listing Rules has not been exceeded at any relevant time. The independent non-executive directors have reviewed and confirmed that the above continuing connected transactions during the year ended 31 December 2012 had been entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

CONTINUING CONNECTED TRANSACTIONS *(continued)*

Listing Rules Implications *(continued)*

The Company has also received a letter from Ernst & Young, the Company's auditors, reporting on the Group's continuing connected transactions in accordance with 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. Ernst & Young have issued their unqualified letter containing the following findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules:

(i) the transactions had received the approval of the Board of the Company;

(ii) the transactions involving the provision of goods by the Group were in accordance with the pricing policies of the Company;

(iii) the transactions had been entered into in accordance with the Tenancy Agreements, the PRC Tenancy Agreement and the Sales Agreement governing the transactions; and

(iv) the transactions had not exceeded the annual caps disclosed in the announcements dated 21 September 2009, 24 November 2010 and 28 September 2012 of the Company respectively.

Save for the connected transactions and continuing connected transactions disclosed above, during the year, there were no other transactions which, in the opinion of the directors, constituted connected transactions or continuing connected transactions that were subject to the reporting requirements under the Listing Rules. Certain connected transactions and continuing connected transactions disclosed above were also reported under the related party transaction in accordance with the Hong Kong Financial Reporting Standards in this Annual Report.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales and purchases attributable to the Group's five largest customers and suppliers both accounted for less than 30% of the total sales and purchases for the year.

To the best knowledge of the directors, neither the directors, their associates, nor any shareholders who own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and five largest suppliers during the year.

RETIREMENT BENEFITS SCHEMES

The Group operates defined contribution retirement benefits schemes, namely the Mandatory Provident Fund Scheme (the "MPF Scheme") and a scheme registered under the Occupational Retirement Schemes Ordinance which has been exempted under the MPF Schemes Ordinance (the "Exempted Scheme") for those employees who are eligible to participate. Contributions are made based on a percentage of the employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the respective schemes.

RETIREMENT BENEFITS SCHEMES *(continued)*

The assets of the respective schemes are held separately from those of the Group in independently administered funds. In accordance with the MPF Schemes Ordinance, when an employee leaves the Exempted Scheme prior to his/her interest in the employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. For the MPF Scheme, the employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a specified percentage of its payroll costs to the central pension scheme.

For the year ended 31 December 2012, the total scheme contributions made by the Group amounted to approximately HK$64,912,000 and no forfeited contributions were applied to reduce employer's contributions. As at 31 December 2012, there was no forfeited contribution available to reduce future contributions to the Exempted Scheme.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's amended and restated articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on 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 date of this report.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

HUNG HAK HIP, PETER
Chairman
Hong Kong

19 March 2013

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

To the shareholders of Hop Hing Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Hop Hing Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 51 to 119, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, 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.

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 auditors' judgement, 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 auditors consider 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.

To the shareholders of Hop Hing Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, 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.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

19 March 2013

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
TURNOVER	5	**2,878,212**	2,450,307
Direct cost of stocks sold and services provided		**(1,475,043)**	(1,244,735)
Other income and gains, net	5	**11,378**	35,155
Other production and service costs		**(56,887)**	(56,425)
Selling and distribution expenses		**(962,162)**	(776,619)
General and administrative expenses		**(180,299)**	(166,360)
Other expenses		**(1,544)**	(10,280)
PROFIT FROM OPERATING ACTIVITIES	6	**213,655**	231,043
Finance costs	7	**(9,919)**	(11,968)
PROFIT BEFORE TAX		**203,736**	219,075
Income tax expense	10	**(59,541)**	(62,754)
PROFIT FOR THE YEAR		**144,195**	156,321
ATTRIBUTABLE TO:			
Equity holders of the Company	11	**129,834**	75,348
Non-controlling interests		**14,361**	80,973
		144,195	156,321
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12		
Basic		**HK4.39 cents**	HK14.72 cents
Diluted		**HK1.30 cents**	HK0.76 cent

Details of the proposed final dividend for the year are disclosed in note 39 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	2012 HK$'000	2011 HK$'000 (Restated)
PROFIT FOR THE YEAR	**144,195**	156,321
OTHER COMPREHENSIVE INCOME		
Release of exchange fluctuation reserve upon disposal of a subsidiary	**(2,039)**	–
Release of exchange fluctuation reserve upon de-registration of a subsidiary	**(133)**	–
Exchange differences on translation of foreign operations	**5,482**	14,509
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**3,310**	14,509
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**147,505**	170,830
ATTRIBUTABLE TO:		
Equity holders of the Company	**134,143**	85,399
Non-controlling interests	**13,362**	85,431
	147,505	170,830

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	31 December 2012 HK$'000	31 December 2011 HK$'000 (Restated)	1 January 2011 HK$'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	13	**461,635**	405,789	397,684
Prepaid land lease payments	14	**26,889**	27,268	27,017
Trademarks	15	**125,299**	124,310	124,274
Deferred tax assets	24	**1,340**	476	989
Rental deposits	25	**41,105**	32,629	25,860
Total non-current assets		**656,268**	590,472	575,824
CURRENT ASSETS				
Stocks	18	**240,795**	222,852	211,922
Accounts receivable	19	**147,808**	120,342	113,257
Prepayments, deposits and other receivables	25	**90,234**	61,103	71,124
Securities at fair value through profit or loss		**–**	–	1,512
Amounts due from related companies	37(e)	**–**	185	32,908
Amount due from a then shareholder of a subsidiary	37(f)	**–**	–	7,800
Tax recoverable		**2,003**	290	1,511
Pledged bank deposits	20	**47,964**	44,907	43,477
Cash and cash equivalents	26	**192,091**	465,461	274,304
Total current assets		**720,895**	915,140	757,815

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

31 December 2012

	Notes	**31 December 2012 HK$'000**	31 December 2011 HK$'000 (Restated)	1 January 2011 HK$'000 (Restated)
CURRENT LIABILITIES				
Accounts payable	21	**181,305**	173,955	143,752
Bills payable	22	**14,046**	26,235	17,925
Other payables and accrued charges	27	**305,572**	362,032	155,071
Interest-bearing bank loans	23	**149,239**	228,766	200,913
Tax payable		**4,554**	8,109	4,293
Amounts due to related companies	37(e)	**–**	7,095	81,069
Amount due to a then shareholder of a subsidiary	37(f)	**–**	44,389	–
Total current liabilities		**654,716**	850,581	603,023
NET CURRENT ASSETS		**66,179**	64,559	154,792
TOTAL ASSETS LESS CURRENT LIABILITIES		**722,447**	655,031	730,616
NON-CURRENT LIABILITIES				
Deferred tax liabilities	24	**7,400**	12,918	20,263
NET ASSETS		**715,047**	642,113	710,353
EQUITY				
Equity attributable to equity holders of the Company				
Issued share capital	28	**991,687**	51,566	51,154
Reserves	31(a)	**(276,834)**	516,961	535,624
		714,853	568,527	586,778
Non-controlling interests		**194**	73,586	123,575
Total equity		**715,047**	642,113	710,353

HUNG HAK HIP, PETER
CHAIRMAN

HUNG MING KEI, MARVIN
CHIEF EXECUTIVE OFFICER

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Attributable to equity holders of the Company												
	Issued share capital HK$'000	Share premium account* HK$'000	Perpetual subordinated convertible securities ("PSCS")* HK$'000 (note 29)	Merger reserve*# HK$'000	Share option reserve* HK$'000	Exchange fluctuation reserve* HK$'000	Properties revaluation reserve* HK$'000	Statutory reserve*## HK$'000	Capital and other reserves* HK$'000	Retained profits/ (accumulated losses)* HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2012, as previously reported	51,566	11,513	–	–	6,645	29,293	2,080	–	434,025	(41,578)	493,544	5,349	498,893
Effect of business combination under common control (note 2.1)	–	–	–	3,479	–	14,745	–	15,157	5,309	36,293	74,983	68,237	143,220
At 1 January 2012, as restated	51,566	11,513	–	3,479	6,645	44,038	2,080	15,157	439,334	(5,285)	568,527	73,586	642,113
Profit for the year	–	–	–	–	–	–	–	–	–	129,834	129,834	14,361	144,195
Other comprehensive income for the year:													
Release of exchange fluctuation reserve upon disposal of a subsidiary	–	–	–	–	–	(1,040)	–	–	–	–	(1,040)	(999)	(2,039)
Release of exchange fluctuation reserve upon de-registration of a subsidiary	–	–	–	–	–	(133)	–	–	–	–	(133)	–	(133)
Exchange differences on translation of foreign operations	–	–	–	–	–	5,482	–	–	–	–	5,482	–	5,482
Total comprehensive income for the year	–	–	–	–	–	4,309	–	–	–	129,834	134,143	13,362	147,505
Issue of shares upon exercise of warrants (note 28)	599	599	–	–	–	–	–	–	–	–	1,198	–	1,198
Exercise of share options (note 28)	333	1,489	–	–	(657)	–	–	–	–	–	1,165	–	1,165
Equity-settled share option arrangements (note 30)	–	–	–	–	74	–	–	–	–	–	74	–	74
Disposal of a subsidiary (note 32)	–	–	–	–	–	–	–	–	1,690	–	1,690	(3,982)	(2,292)
De-registration of a subsidiary	–	–	–	–	–	–	–	–	(97)	–	(97)	–	(97)
Issuance of the PSCS (note 29)	–	–	4,964,232	–	–	–	–	–	–	–	4,964,232	–	4,964,232
PSCS issue expenses	–	–	(2,850)	–	–	–	–	–	–	–	(2,850)	–	(2,850)
Conversion of the PSCS (note 28)	939,189	4,022,193	(4,961,382)	–	–	–	–	–	–	–	–	–	–
PSCS distribution (note 29)	–	–	–	–	–	–	–	–	(66,358)	–	(66,358)	–	(66,358)
Dividend declared by a subsidiary paid to its former owners	–	–	–	–	–	–	–	–	–	(26,073)	(26,073)	(23,727)	(49,800)
Business combination under common control	–	–	–	(4,860,798)	–	–	–	–	–	–	(4,860,798)	(59,045)	(4,919,843)
At 31 December 2012	991,687	4,035,794	–	(4,857,319)	6,062	48,347	2,080	15,157	374,569	98,476	714,853	194	715,047

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

Year ended 31 December 2012

	Attributable to equity holders of the Company											
	Issued share capital HK$'000	Share premium account* HK$'000	Merger reserve* HK$'000	Share option reserve* HK$'000	Exchange fluctuation reserve* HK$'000	Properties revaluation reserve* HK$'000	Statutory reserve*## HK$'000	Capital and other reserves* HK$'000	Retained profits/ (accumulated losses)* HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011, as previously reported	51,154	11,143	–	6,306	23,198	2,080	–	434,025	(42,877)	485,029	8,901	493,930
Effect of business combination under common control (note 2.1)	–	–	–	–	10,789	–	15,157	5,309	70,494	101,749	114,674	216,423
At 1 January 2011, as restated	51,154	11,143	–	6,306	33,987	2,080	15,157	439,334	27,617	586,778	123,575	710,353
Profit for the year	–	–	–	–	–	–	–	–	75,348	75,348	80,973	156,321
Other comprehensive income for the year: Exchange differences on translation of foreign operations	–	–	–	–	10,051	–	–	–	–	10,051	4,458	14,509
Total comprehensive income for the year	–	–	–	–	10,051	–	–	–	75,348	85,399	85,431	170,830
Issue of shares upon exercise of warrants (note 28)	412	412	–	–	–	–	–	–	–	824	–	824
Share issue expenses (note 28)	–	(42)	–	–	–	–	–	–	–	(42)	–	(42)
Equity-settled share option arrangements (note 30)	–	–	–	339	–	–	–	–	–	339	–	339
Interim dividend declared by a subsidiary paid to its former shareholders	–	–	–	–	–	–	–	–	(108,250)	(108,250)	(108,350)	(216,600)
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(13,505)	(13,505)
Acquisition of subsidiaries pursuant to a group reorganisation	–	–	3,479	–	–	–	–	–	–	3,479	(4,390)	(911)
Repayment of loans due to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(9,175)	(9,175)
At 31 December 2011	51,566	11,513	3,479	6,645	44,038	2,080	15,157	439,334	(5,285)	568,527	73,586	642,113

* These reserve accounts comprise the convertible securities and reserves in debit balance of HK$276,834,000 (2011 (restated): credit balance of HK$516,961,000) in the consolidated statement of financial position.

\# Merger reserve represents the excess of investment cost in Hop Hing Fast Food Group Holdings Limited ("Hop Hing Fast Food") of HK$4,919,843,000 (being the total consideration of HK$4,964,232,000 reduced by the loans of HK$44,389,000 owed by Hop Hing Fast Food to Queen Board Limited ("Queen Board") and its associates (the "Loan")) over the share capital and share premium of Hop Hing Fast Food of HK$363,000 and HK$62,161,000, respectively.

\#\# In accordance with the Company Law of the People's Republic of China (the "PRC"), the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 50% of the registered capital after such usages.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**203,736**	219,075
Adjustments for:			
Interest income	5	**(3,742)**	(4,083)
Finance costs	7	**9,919**	11,968
Depreciation	6	**113,822**	96,038
Amortisation of prepaid land lease payments	6	**722**	711
Impairment of accounts receivable	6	**57**	76
Gain on disposal of items of property, plant and equipment, and prepaid land lease payments, net	5	**(4,226)**	(17,566)
Gain on disposal of securities at fair value through profit or loss	5	**–**	(120)
Loss on disposal of subsidiaries	6	**711**	–
Gain on de-registration of a subsidiary	5	**(230)**	–
Equity-settled share option expense	30	**74**	339
		320,843	306,438
Increase in stocks		**(17,943)**	(10,930)
Increase in accounts receivable		**(27,701)**	(7,799)
Decrease/(increase) in prepayments, deposits and other receivables		**(38,329)**	3,277
Decrease in amounts due from related companies		**185**	32,723
Decrease in amount due from a then shareholder of a subsidiary		**–**	7,800
Increase in accounts payable		**7,350**	30,203
Increase/(decrease) in bills payable		**(12,189)**	8,310
Decrease in other payables and accrued charges		**42,938**	51,465
Decrease in amounts due to related companies		**(7,095)**	(73,974)
Cash generated from operations		**268,059**	347,513
Interest received		**3,742**	4,083
Hong Kong profits tax paid		**(7,212)**	(3,829)
Overseas tax paid		**(63,860)**	(61,424)
Net cash flows from operating activities		**200,729**	286,343

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(173,439)**	(101,046)
Proceeds from disposal of items of property, plant and equipment		**12,933**	31,124
Proceeds from disposal of securities at fair value through profit or loss		**–**	1,632
Increase in trademarks		**(989)**	(36)
Decrease/(increase) in time deposits with original maturity of more than three months when acquired	26	**57,901**	(20,819)
Disposal of subsidiaries	32	**(5,547)**	–
Acquisition of subsidiaries pursuant to a group reorganisation		**–**	(911)
Net cash flows used in investing activities		**(109,141)**	(90,056)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(9,919)**	(11,968)
Issue of shares, net of expenses		**2,363**	782
PSCS issue expense		**(2,850)**	–
PSCS distribution	29	**(66,358)**	–
Increase in pledged bank deposits		**(3,057)**	(1,430)
Increase in an amount due to the immediate holding company		**–**	44,389
Repayment of loans due to non-controlling shareholders		**–**	(9,175)
Net drawing/(repayment) of bank and other loans		**(79,527)**	27,853
Dividends paid to the former owners of a subsidiary		**(147,963)**	(74,609)
Net cash flows used in financing activities		**(307,311)**	(24,158)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(215,723)**	172,129
Cash and cash equivalents at beginning of year		**397,560**	227,222
Effect of foreign exchange rates changes, net		**254**	(1,791)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**182,091**	397,560
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position		**192,091**	465,461
Less: Time deposits with original maturity of more than three months when acquired	26	**(10,000)**	(67,901)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**182,091**	397,560

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	**2012 HK$'000**	2011 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	**5,348,663**	451,992
Deferred tax assets	24	**885**	11
Total non-current assets		**5,349,548**	452,003
CURRENT ASSETS			
Due from a subsidiary	16	**10,000**	14,000
Prepayments and other receivables		**780**	3,160
Cash and cash equivalents		**292**	1,331
Total current assets		**11,072**	18,491
CURRENT LIABILITIES			
Other payables and accrued charges		**4,479**	15,160
Total current liabilities		**4,479**	15,160
NET CURRENT ASSETS		**6,593**	3,331
NET ASSETS		**5,356,141**	455,334
EQUITY			
Issued share capital	28	**991,687**	51,566
Reserves	31(b)	**4,364,454**	403,768
Total equity		**5,356,141**	455,334

HUNG HAK HIP, PETER
CHAIRMAN

HUNG MING KEI, MARVIN
CHIEF EXECUTIVE OFFICER

NOTES TO FINANCIAL STATEMENTS

31 December 2012

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 1 August 2007. The registered office address of the Company is Clifton House, 75 Fort Street, P.O. Box 1350 GT, Grand Cayman, KY1-1108, Cayman Islands. The principal place of business of the Company is located at Units E & F, 2/F., Hop Hing Building, 9 Ping Tong Street East, Tong Yan San Tsuen, Yuen Long, New Territories, Hong Kong.

The principal activity of the Company is investment holding. The subsidiaries of the Company are primarily engaged in (i) the operation of Yoshinoya and Dairy Queen quick service restaurants ("QSR") in Beijing, Shenyang, Dalian, Huhehaote and Harbin in the PRC and (ii) the extraction, refining, blending, bottling, packaging and distribution of edible oils, the provision of ancillary activities during the year.

On 1 December 2011, the Company and Queen Board, a company controlled by a substantial shareholder of the Company, entered into an acquisition agreement (the "Acquisition") pursuant to which Queen Board has agreed to sell the entire issued share capital of Hop Hing Fast Food (formerly known as Summerfield Profits Limited), an investment holding company of a group of companies that own rights to operate QSR business in the franchise regions in the PRC which include Beijing municipality, Tianjin municipality, the Inner Mongolia Autonomous Region (excluding airports, railway stations or highway service areas), and the provinces of Hebei, Liaoning, Heilongjiang and Jilin, and the Loan. Details of the Acquisition were set out in the Company's announcements made on 1 December 2011 and 12 March 2012 and circular dated 30 December 2011.

Prior to the Acquisition, Hop Hing Fast Food has undergone a group reorganisation (the "Reorganisation") to rationalise its group structure for the purpose of the Acquisition. Details of the Reorganisation were set out in the Company's circular dated 30 December 2011.

The Acquisition was completed on 12 March 2012 with the total consideration being satisfied by an issue of PSCS by the Company to companies as directed by Queen Board. Details of the PSCS are set out in note 29.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain land and buildings, classified as property, plant and equipment, which were carried at 1993 valuation. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 BASIS OF PREPARATION *(continued)*

Merger accounting for business combination under common control

The financial statements have been prepared in accordance with the principles of merger accounting as set out in Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by the HKICPA, as if the Acquisition had been completed at the beginning of the earliest period presented because the Acquisition were regarded as a business combination under common control of the substantial shareholder of the Company before and after the Acquisition.

The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Company and its subsidiaries (collectively referred to as the "Group") for the years ended 31 December 2012 and 2011 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the dates when the subsidiaries first came under common control of the substantial shareholder, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2011 and 1 January 2011 have been prepared to present the assets and liabilities of the Group using the existing carrying values from the substantial shareholder perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Acquisition.

Equity interests in subsidiaries and/or business held by parties other than the substantial shareholder prior to the Acquisition are presented as non-controlling interests in equity in applying the principles of merger accounting.

2.1 BASIS OF PREPARATION *(continued)*

Merger accounting for business combination under common control *(continued)*

The effect of the merger accounting restatement described above on the consolidated income statement for the year ended 31 December 2011 by line items is as follows:

	Year ended 31 December 2011 HK$'000 (As previously reported)	Merger accounting restatement HK$'000	Year ended 31 December 2011 HK$'000 (Restated)
Turnover	805,565	1,644,742	2,450,307
Direct cost of stocks sold and services provided	(592,119)	(652,616)	(1,244,735)
Other income and gains, net	23,314	11,841	35,155
Other production and service costs	(56,425)	–	(56,425)
Selling and distribution expenses	(103,090)	(673,529)	(776,619)
General and administrative expenses	(45,712)	(120,648)	(166,360)
Other expenses	(10,280)	–	(10,280)
Profit from operating activities	21,253	209,790	231,043
Finance costs	(10,286)	(1,682)	(11,968)
Profit before tax	10,967	208,108	219,075
Income tax expense	(6,635)	(56,119)	(62,754)
Profit for the year	4,332	151,989	156,321
Attributable to:			
Equity holders of the Company	1,299	74,049	75,348
Non-controlling interests	3,033	77,940	80,973
	4,332	151,989	156,321
Earnings per share			
Basic	HK0.25 cent	HK14.47 cents	HK14.72 cents
Diluted	HK0.23 cent	HK0.53 cent	HK0.76 cent

2.1 BASIS OF PREPARATION *(continued)*

Merger accounting for business combination under common control *(continued)*

The effect of the merger accounting restatement described above on the consolidated statement of comprehensive income for the year ended 31 December 2011 by line items is as follows:

	Year ended 31 December 2011 HK$'000 (As previously reported)	Merger accounting restatement HK$'000	Year ended 31 December 2011 HK$'000 (Restated)
Profit for the year	4,332	151,989	156,321
Other comprehensive income			
Exchange differences arising on translation of foreign operations	6,123	8,386	14,509
Total comprehensive income for the year	10,455	160,375	170,830
Attributable to:			
Equity holders of the Company	7,394	78,005	85,399
Non-controlling interests	3,061	82,370	85,431
	10,455	160,375	170,830

2.1 BASIS OF PREPARATION *(continued)*

Merger accounting for business combination under common control *(continued)*

The effects of the merger accounting restatement described above on the consolidated statements of financial position as at 1 January 2011 and 31 December 2011 by line items are as follows:

	31 December 2011 HK$'000 (As previously reported)	Merger accounting restatement HK$'000	31 December 2011 HK$'000 (Restated)	1 January 2011 HK$'000 (As previously reported)	Merger accounting restatement HK$'000	1 January 2011 HK$'000 (Restated)
Non-current assets						
Property, plant and equipment	207,154	198,635	405,789	226,743	170,941	397,684
Prepaid land lease payments	27,268	–	27,268	27,017	–	27,017
Trademarks	124,310	–	124,310	124,274	–	124,274
Deferred tax assets	476	–	476	989	–	989
Rental deposits	–	32,629	32,629	–	25,860	25,860
Total non-current assets	359,208	231,264	590,472	379,023	196,801	575,824
Current assets						
Stocks	143,507	79,345	222,852	158,028	53,894	211,922
Accounts receivable	116,251	4,091	120,342	109,928	3,329	113,257
Prepayments, deposits and other receivables	24,836	36,267	61,103	21,561	49,563	71,124
Securities at fair value through profit or loss	–	–	–	–	1,512	1,512
Amounts due from related companies	–	185	185	–	32,908	32,908
Amount due from a then shareholder of a subsidiary	–	–	–	–	7,800	7,800
Tax recoverable	290	–	290	1,511	–	1,511
Pledged bank deposits	44,907	–	44,907	43,477	–	43,477
Cash and cash equivalents	133,752	331,709	465,461	80,608	193,696	274,304
Total current assets	463,543	451,597	915,140	415,113	342,702	757,815
Current liabilities						
Accounts payable	51,876	122,079	173,955	60,613	83,139	143,752
Bills payable	26,235	–	26,235	17,925	–	17,925
Other payables and accrued charges	49,337	312,695	362,032	42,857	112,214	155,071
Interest-bearing bank loans	191,729	37,037	228,766	176,191	24,722	200,913
Tax payable	2,732	5,377	8,109	730	3,563	4,293
Amounts due to related companies	–	7,095	7,095	–	81,069	81,069
Amount due to a then shareholder of a subsidiary	–	44,389	44,389	–	–	–
Total current liabilities	321,909	528,672	850,581	298,316	304,707	603,023
Net current assets/(liabilities)	141,634	(77,075)	64,559	116,797	37,995	154,792
Total assets less current liabilities	500,842	154,189	655,031	495,820	234,796	730,616
Non-current liabilities						
Deferred tax liabilities	1,949	10,969	12,918	1,890	18,373	20,263
Net assets	498,893	143,220	642,113	493,930	216,423	710,353
Equity						
Equity attributable to equity holders of the Company						
Issued share capital	51,566	–	51,566	51,154	–	51,154
Reserves	441,978	74,983	516,961	433,875	101,749	535,624
	493,544	74,983	568,527	485,029	101,749	586,778
Non-controlling interests	5,349	68,237	73,586	8,901	114,674	123,575
Total equity	498,893	143,220	642,113	493,930	216,423	710,353

2.1 BASIS OF PREPARATION *(continued)*

Merger accounting for business combination under common control *(continued)*

The effects of the merger accounting restatement described above to the Group's equity on 1 January 2011 and 31 December 2011 are as follows:

	31 December 2011 HK$'000 (As previously reported)	Merger accounting restatement HK$'000	31 December 2011 HK$'000 (Restated)	1 January 2011 HK$'000 (As previously reported)	Merger accounting restatement HK$'000	1 January 2011 HK$'000 (Restated)
Issued share capital	51,566	–	51,566	51,154	–	51,154
Share premium account	11,513	–	11,513	11,143	–	11,143
Merger reserve	–	3,479	3,479	–	–	–
Share option reserve	6,645	–	6,645	6,306	–	6,306
Exchange fluctuation reserve	29,293	14,745	44,038	23,198	10,789	33,987
Properties revaluation reserve	2,080	–	2,080	2,080	–	2,080
Statutory reserve	–	15,157	15,157	–	15,157	15,157
Capital and other reserves	434,025	5,309	439,334	434,025	5,309	439,334
Retained profits/(accumulated losses)	(41,578)	36,293	(5,285)	(42,877)	70,494	27,617
Non-controlling interests	5,349	68,237	73,586	8,901	114,674	123,575
	498,893	143,220	642,113	493,930	216,423	710,353

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries and the Group's share of the financial statements of the Group's jointly-controlled entities for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Apart from the merger accounting applied for the Acquisition, the results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits/(accumulated losses), as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)–Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009–2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

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

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in its jointly-controlled entities are accounted for by the proportionate consolidation method, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill

As explained in note 2.1 above, the acquisition of subsidiaries under common control has been accounted for using the merger method of accounting. The acquisition method of accounting is used to account for the acquisition of subsidiaries not under common control.

Under the merger method of accounting, the net assets of the combining entities or businesses are combined using their existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination. The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

Business combinations not under common control

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to proportionate share of net assets in the events of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations not under common control *(continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than stocks, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

 (i) has control or joint control over the Group;

 (ii) has significant influence over the Group; or

 (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

 (i) the entity and the Group are members of the same group;

 (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

 (iii) the entity and the Group are joint ventures of the same third party;

 (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

 (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

 (vi) the entity is controlled or jointly controlled by a person identified in (a); and

 (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

The transitional provision set out in paragraph 80A of HKAS 16 *Property, Plant and Equipment* issued by the HKICPA has been adopted for certain properties which are stated at valuation. As a result, those assets stated at revalued amounts based on revaluations which were reflected in the financial statements for the year ended 31 December 1993 have not been revalued by class at the end of the reporting period.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the remaining terms of the leases
Buildings	2% to 2.5% or over the terms of the leases, if shorter
Barges, oil plants and machinery, motor vehicles and other equipment	5% to 33.33%
Furniture and fixtures	20% to 33.33%
Leasehold improvements	33.3% or over the terms of the leases, if shorter

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset. On disposal of a revalued asset, the relevant portion of the other properties revaluation reserve realised in respect of previous valuations is transferred to retained profits/(accumulated losses) as a movement in reserves.

Trademarks

Trademarks with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level, and are not amortised. The useful life of a trademark with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the income statement. The loss arising from impairment is recognised in the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include accounts payable, bills payable, other payables, accrued charges and interest-bearing bank loans.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the cost which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) from the provision of management, marketing, bottling, packaging and testing services, in the period in which the services are rendered;

(iii) from the sale of food and beverage products from fast food restaurants and ice-cream shops at the point of sale to customers;

(iv) rental income, on a time proportion basis over the lease terms;

(v) royalties, in the period in which the related products are sold; and

(vi) interest income, on an accrual basis using the effective interest rate method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial option pricing model, further details of which are given in note 30 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

***Share-based payments** (continued)*

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the end of the reporting period is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the end of the reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Retirement benefits schemes

The Group operates defined contribution retirement benefits schemes, namely, the Mandatory Provident Fund Scheme (the "MPF Scheme") and a scheme registered under the Occupational Retirement Schemes Ordinance which has been exempted under the MPF Schemes Ordinance (the "Exempted Scheme") for those employees who are eligible to participate. Contributions are made based on a percentage of the employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the respective schemes. The assets of the respective schemes are held separately from those of the Group in independently administered funds. In accordance with the MPF Schemes Ordinance, when an employee leaves the Exempted Scheme prior to his/her interest in the employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. For the MPF Scheme, the employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and a jointly-controlled entity are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries and a jointly-controlled entity are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and a joint-controlled entity which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosure, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in preparing cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in cash flow projections, could have a material effect on the net present value used in the impairment test.

Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of item of property, plant and equipment, the Group has to consider various factors, such as obsolescence arising from changes or improvements in the production and provision of services, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expect physical wear and tear, care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or residual values of items of property, plant and equipment are shorter than previous estimation. Useful lives and residual values are reviewed at the end of each reporting period based on changes in circumstances.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2012 was HK$1,340,000 (2011: HK$476,000). Further details are contained in note 24 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

(a) the QSR business; and

(b) the edible oils business.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that head office expenses included in the general and administrative expenses is excluded from such measurement.

There are no significant intersegment sales. The interest expenses of intersegment loans are charged at the prevailing market interest rates.

For the year ended 31 December 2012

	QSR HK$'000	Edible oils* HK$'000	Inter-segment elimination HK$'000	Total HK$'000
Segment revenue and results				
Sales to external customers	**1,971,321**	**907,065**	**(174)**	**2,878,212**
Direct cost of stocks sold and services provided	**(784,542)**	**(690,675)**	**174**	**(1,475,043)**
Other income and gains, net	**7,731**	**6,058**	**(2,411)**	**11,378**
Other production and service costs	**–**	**(56,887)**		**(56,887)**
Selling and distribution expenses	**(852,764)**	**(109,398)**		**(962,162)**
General and administrative expenses	**(128,665)**	**(40,159)**		**(168,824)**
Profit from operating activities before unallocated head office expenses	**213,081**	**16,004**		**226,674**
Finance costs	**(2,648)**	**(9,682)**	**2,411**	**(9,919)**
Profit before unallocated head office expenses and tax	**210,433**	**6,322**		**216,755**
Income tax expense	**(57,129)**	**(2,412)**		**(59,541)**
Profit before unallocated head office expenses and after tax	**153,304**	**3,910**		**157,214**
Unallocated head office expenses				**(13,019)**
Profit for the year				**144,195**

* Including certain expenses of the Company.

4. OPERATING SEGMENT INFORMATION *(continued)*

As at 31 December 2012

	QSR HK$'000	Edible oils* HK$'000	Total HK$'000
Segment assets and liabilities			
NON-CURRENT ASSETS			
Property, plant and equipment and prepaid land lease payments	267,887	220,637	488,524
Trademarks	–	125,299	125,299
Other non-current assets	41,105	1,340	42,445
Total non-current assets	308,992	347,276	656,268
CURRENT ASSETS			
Stocks	106,887	133,908	240,795
Accounts receivable	4,931	142,877	147,808
Cash and cash equivalents and pledged bank deposits	178,408	61,647	240,055
Other current assets	66,017	26,220	92,237
Total current assets	356,243	364,652	720,895
CURRENT LIABILITIES			
Accounts payable	(133,984)	(47,321)	(181,305)
Interest-bearing bank loans	(26,250)	(122,989)	(149,239)
Other current liabilities	(260,048)	(64,124)	(324,172)
Total current liabilities	(420,282)	(234,434)	(654,716)
NET CURRENT ASSETS/(LIABILITIES)	(64,039)	130,218	66,179
NON-CURRENT LIABILITIES			
Deferred tax liabilities	(6,311)	(1,089)	(7,400)
Net assets	238,642	476,405	715,047

* Including the Company's assets and liabilities, except for the investments in subsidiaries and balances with subsidiaries.

4. OPERATING SEGMENT INFORMATION *(continued)*

For the year ended 31 December 2011
(Restated)

	QSR HK$'000	Edible oils* HK$'000	Total HK$'000
Segment revenue and results			
Sales to external customers	1,644,742	805,565	2,450,307
Direct cost of stocks sold and services provided	(652,616)	(592,119)	(1,244,735)
Other income and gains, net	11,841	23,314	35,155
Other production and service costs	–	(56,425)	(56,425)
Selling and distribution expenses	(673,529)	(103,090)	(776,619)
General and administrative expenses	(120,648)	(42,146)	(162,794)
Profit from operating activities before unallocated head office expenses	209,790	35,099	244,889
Finance costs	(1,682)	(10,286)	(11,968)
Profit before unallocated head office expenses and tax	208,108	24,813	232,921
Income tax expense	(56,119)	(6,635)	(62,754)
Profit before unallocated head office expenses and after tax	151,989	18,178	170,167
Unallocated head office expenses			(13,846)
Profit for the year			156,321

* Including certain expenses of the Company.

4. OPERATING SEGMENT INFORMATION *(continued)*

As at 31 December 2011
(Restated)

	QSR HK$'000	Edible oils* HK$'000	Total HK$'000
Segment assets and liabilities			
NON-CURRENT ASSETS			
Property, plant and equipment and prepaid land lease payments	198,635	234,422	433,057
Trademarks	–	124,310	124,310
Other non-current assets	32,629	476	33,105
Total non-current assets	231,264	359,208	590,472
CURRENT ASSETS			
Stocks	79,345	143,507	222,852
Accounts receivable	4,091	116,251	120,342
Cash and cash equivalents and pledged bank deposits	331,709	178,659	510,368
Other current assets	36,452	25,126	61,578
Total current assets	451,597	463,543	915,140
CURRENT LIABILITIES			
Accounts payable	(122,079)	(51,876)	(173,955)
Interest-bearing bank loans	(37,037)	(191,729)	(228,766)
Other current liabilities	(369,556)	(78,304)	(447,860)
Total current liabilities	(528,672)	(321,909)	(850,581)
NET CURRENT ASSETS/(LIABILITIES)	(77,075)	141,634	64,559
NON-CURRENT LIABILITIES			
Deferred tax liabilities	(10,969)	(1,949)	(12,918)
Net assets	143,220	498,893	642,113

* Including the Company's assets and liabilities, except for the investments in subsidiaries and balances with subsidiaries.

For the year ended 31 December 2012

	QSR HK$'000	**Edible oils HK$'000**	**Total HK$'000**
Other segment information			
Impairment of accounts receivable	**–**	**57**	**57**
Depreciation and amortisation	**97,684**	**16,860**	**114,544**
Gain on disposal of items of property, plant and equipment, and prepaid land lease payments, net	**234**	**3,992**	**4,226**
Loss on disposal of subsidiaries	**–**	**711**	**711**
Gain on deregistration of a subsidiary	**–**	**230**	**230**
Capital expenditure*	**165,497**	**8,931**	**174,428**

4. OPERATING SEGMENT INFORMATION *(continued)*

For the year ended 31 December 2011 (Restated)

	QSR HK$'000	Edible oils HK$'000	Total HK$'000
Other segment information			
Impairment of accounts receivable	–	76	76
Depreciation and amortisation	78,804	17,945	96,749
Gain/(loss) on disposal of items of property, plant and equipment, and prepaid land lease payments, net	(2,068)	19,634	17,566
Capital expenditure*	99,615	1,467	101,082

* Capital expenditure consists of additions to property, plant and equipment and trademarks.

Geographical information

(a) Revenue from external customers

	For the year ended 31 December	
	2012 HK$'000	2011 HK$'000 (Restated)
Hong Kong and Macau	**642,815**	487,825
Mainland China	**2,235,397**	1,962,482
	2,878,212	2,450,307

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	31 December 2012 HK$'000	31 December 2011 HK$'000 (Restated)
Hong Kong and Macau	**143,797**	146,644
Mainland China	**511,131**	443,352
	654,928	589,996

The non-current assets information is based on the locations of the assets and excludes deferred tax assets.

5. TURNOVER AND OTHER INCOME AND GAINS, NET

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, the value of services rendered, gross rental income received and royalties during the year.

An analysis of turnover, other income and gains, net is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
		(Restated)
Turnover		
Sales of QSR products	**1,971,321**	1,644,742
Sales of edible oils products	**906,770**	798,221
Royalties	**–**	6,655
Rental and other income	**121**	689
	2,878,212	2,450,307
Other income and gains, net		
Bank interest income	**3,742**	4,083
Foreign exchange differences, net	**(1,124)**	10,229
Gain on disposal of items of property, plant and equipment, and prepaid land lease payments, net	**4,226**	17,566
Gain on disposal of securities at fair value through profit or loss	**–**	120
Recovery of deposits written off in prior years	**1,500**	–
Compensation	**1,277**	1,951
Gain on de-registration of a subsidiary	**230**	–
Others	**1,527**	1,206
	11,378	35,155

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
Net rental income		**(121)**	(648)
Foreign exchange differences, net	5	**1,124**	(10,229)
Direct cost of stocks sold and services provided		**1,475,043**	1,244,735
Gain on disposal of items of property, plant and equipment, and prepaid land lease payments, net	5	**(4,226)**	(17,566)
Employee benefit expenses (including directors' emoluments in note 8):			
Wages and salaries		**280,789**	238,138
Equity-settled share option expense	30	**74**	339
Pension scheme contributions		**64,912**	53,178
Less: Forfeited contributions *		**(89)**	–
		345,686	291,655
Depreciation**	13	**113,822**	96,038
Amortisation of prepaid land lease payments**	14	**722**	711
Lease payments under operating lease in respect of land and buildings			
– Minimum lease payments		**234,036**	188,363
– Contingent rents		**39,526**	28,544
Auditors' remuneration		**3,388**	3,040
Impairment of accounts receivable***	19	**57**	76
Legal and professional fees in relation to the Reorganisation		**–**	4,875
Legal and professional fees incurred for the Acquisition****		**1,544**	10,280
Loss on disposal of subsidiaries	32	**711**	–
Gain on de-registration of a subsidiary	5	**(230)**	–

Notes:

* At 31 December 2012, the Group had no forfeited contributions available to reduce its future contributions to its Exempted Scheme (2011: Nil).

** Depreciation and amortisation of prepaid land lease payments of HK$16,138,000 (2011: HK$17,234,000) and HK$722,000 (2011: HK$711,000), respectively, are included in "Other production and service costs" in the consolidated income statement.

*** Impairment of accounts receivable is included in "General and administrative expenses" in the consolidated income statement.

**** Legal and professional fees incurred for the Acquisition are included in "Other expenses" in the consolidated income statement.

7. FINANCE COSTS

	Group	
	2012 **HK$'000**	2011 HK$'000 (Restated)
Interest on bank and other loans wholly repayable within five years	**9,542**	11,746
Others	**377**	222
	9,919	11,968

8. DIRECTORS' EMOLUMENTS

Directors' emoluments for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	2012					
	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary/ performance related bonuses HK$'000	Equity-settled share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
(a) **Independent non-executive directors**						
Sze Tsai To, Robert	275	–	–	–	–	275
Wong Yu Hong, Philip	220	–	–	–	–	220
Cheung Wing Yui, Edward	220	–	–	–	–	220
Seto Gin Chung, John	220	–	–	–	–	220
Shek Lai Him, Abraham	220	–	–	–	–	220
Siu Wai Keung	73	–	–	–	–	73
	1,228	–	–	–	–	1,228
(b) **Executive directors and non-executive directors**						
Executive directors:						
Hung Ming Kei, Marvin#	1,612	2,329	–	–	–	3,941
Wong Kwok Ying	–	2,273	483	–	182	2,938
Lam Fung Ming, Tammy	–	1,213	251	–	97	1,561
	1,612	5,815	734	–	279	8,440
Non-executive directors:						
Hung Hak Hip, Peter	990	–	–	–	–	990
Hung Chiu Yee	30	–	–	–	–	30
Lee Pak Wing	30	–	–	–	–	30
	1,050	–	–	–	–	1,050

8. DIRECTORS' EMOLUMENTS *(continued)*

	2011 (Restated)					
	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary/ performance related bonuses HK$'000	Equity-settled share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
(a) **Independent non-executive directors**						
Sze Tsai To, Robert	275	–	–	–	–	275
Wong Yu Hong, Philip	220	–	–	–	–	220
Cheung Wing Yui, Edward	220	–	–	–	–	220
Seto Gin Chung, John	220	–	–	–	–	220
Shek Lai Him, Abraham	220	–	–	–	–	220
	1,155	–	–	–	–	1,155
(b) **Executive directors and non-executive directors**						
Executive directors:						
Wong Kwok Ying	–	1,781	63	140	142	2,126
Lam Fung Ming, Tammy	–	1,153	32	70	92	1,347
	–	2,934	95	210	234	3,473
Non-executive directors:						
Hung Hak Hip, Peter	990	–	–	–	–	990
Hung Chiu Yee	30	–	–	–	–	30
Lee Pak Wing	30	1,062	–	–	17	1,109
	1,050	1,062	–	–	17	2,129

\# Mr. Hung Ming Kei, Marvin was appointed as an executive director and the Chief Executive Officer of the Company on 12 March 2012.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

As at the end of the reporting period, certain directors held share options of the Company, further details of which are set out in note 30 to the financial statements. The fair value of such options which is being recognised in the income statement over the vesting period, was determined as at the date of grant and the amounts included in the financial statements are included in the above directors' remuneration disclosures.

9. FIVE HIGHEST PAID EMPLOYEES

The aggregate emoluments of the five highest paid employees, including three (2011: three) directors (and one of which is the Chief Executive Officer of the Company) whose emoluments are set out in note 8 above, for the year are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
		(Restated)
Salaries, allowances and other emoluments	**9,890**	5,798
Discretionary/performance related bonuses	**2,732**	891
Equity-settled share option expense	**–**	210
Pension scheme contributions	**368**	276
	12,990	7,175

The above emoluments are analysed as follows:

	Number of employees	
	2012	2011
		(Restated)
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	4
HK$1,500,001 to HK$2,000,000	**2**	–
HK$2,000,001 to HK$2,500,000	**1**	1
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,500,000 to HK$4,000,000	**1**	–
	5	5

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

Pursuant to the Corporate Income Tax Law (the "New PRC Tax Law") of the PRC being effective on 1 January 2008, the PRC corporate income tax rate for the Group's subsidiaries operated in Mainland China during the year was 25% on their taxable profits.

	2012 HK$'000	2011 HK$'000 (Restated)
Group:		
Current – Hong Kong		
Charge for the year	**5,213**	5,184
Underprovision in prior years	**320**	54
	5,533	5,238
Current – Elsewhere		
Charge for the year	**55,550**	54,083
Underprovision in prior years	**1,702**	–
	57,252	54,083
Deferred (note 24)	**(3,244)**	3,433
Total income tax charge for the year	**59,541**	62,754

A reconciliation of the tax expense applicable to profit before tax at the statutory rates, ranging from 12% to 25%, for the countries/jurisdictions in which the Company and the majority of its subsidiaries and jointly-controlled entities are domiciled to the tax expense at the effective tax rates is as follows:

	Group	
	2012 HK$'000	2011 HK$'000 (Restated)
Profit before tax	**203,736**	219,075
Tax at the applicable tax rate	**33,616**	36,147
Effect of different tax rates in other jurisdictions	**12,108**	13,276
Income not subject to tax	**(571)**	(2,069)
Expenses not deductible for tax	**7,241**	6,870
Tax losses not recognised	**4,288**	5,475
Underprovision in respect of prior years	**2,022**	54
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**1,380**	2,861
Others	**(543)**	140
Tax charge at the Group's effective rate	**59,541**	62,754

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2012 includes a profit of HK$3,346,000 (2011: HK$3,113,000) which has been dealt with in the financial statements of the Company (note 31(b)).

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

(a) Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit for the year attributable to equity holders of the Company of HK$129,834,000 (2011 (restated): HK$75,348,000), and the weighted average number of 2,957,694,053 (2011: 511,825,177) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the consolidated profit for the year attributable to equity holders of the Company of HK$129,834,000 (2011 (restated): HK$75,348,000) and the weighted average number of 9,997,720,920 (2011 (restated): 9,953,347,263) ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares of 7,040,026,867 (2011 (restated): 9,441,522,086) for the year ended 31 December 2012 calculated as follows:

	2012 **HK$'000**	2011 HK$'000 (Restated)
Consolidated profit attributable to equity holders of the Company	**129,834**	75,348

	Number of shares	
	2012	2011 (Restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,957,694,053**	511,825,177
Effect of dilution – weighted average number of ordinary shares:		
Warrants	**52,625,532**	47,331,075
Share options	**7,634,683**	2,299,119
PSCS	**6,979,766,652**	9,391,891,892
	9,997,720,920	9,953,347,263

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000	Barge, oil plant and machinery, motor vehicles and other equipment HK$'000	Furniture, fixtures and leasehold improvements HK$'000	Total HK$'000
31 December 2012				
Cost or valuation:				
At 1 January 2012 (restated)	262,363	598,368	242,546	1,103,277
Additions	–	66,211	107,228	173,439
Disposals	(6,787)	(21,986)	(5,214)	(33,987)
Exchange realignment	1,901	5,718	4,179	11,798
At 31 December 2012	257,477	648,311	348,739	1,254,527
Accumulated depreciation and impairment:				
At 1 January 2012 (restated)	121,959	414,473	161,056	697,488
Provided during the year	3,930	49,160	60,732	113,822
Disposals	(2,601)	(18,253)	(4,426)	(25,280)
Exchange realignment	643	3,572	2,647	6,862
At 31 December 2012	123,931	448,952	220,009	792,892
Net book value:				
At 31 December 2012	133,546	199,359	128,730	461,635

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group

	Leasehold land and buildings HK$'000	Barge, oil plant and machinery, motor vehicles and other equipment HK$'000	Furniture, fixtures and leasehold improvements HK$'000	Total HK$'000
31 December 2011 (Restated)				
Cost or valuation:				
At 1 January 2011				
(As previously reported)	259,919	367,806	–	627,725
Merger accounting restatement	–	191,809	184,570	376,379
At 1 January 2011	259,919	559,615	184,570	1,004,104
Additions	–	47,115	53,931	101,046
Disposals	(5,366)	(27,705)	(6,523)	(39,594)
Exchange realignment	7,810	19,343	10,568	37,721
At 31 December 2011	262,363	598,368	242,546	1,103,277
Accumulated depreciation and impairment:				
At 1 January 2011				
(As previously reported)	118,715	282,267	–	400,982
Merger accounting restatement	–	91,500	113,938	205,438
At 1 January 2011	118,715	373,767	113,938	606,420
Provided during the year	3,965	46,118	45,955	96,038
Disposals	(3,152)	(17,510)	(5,724)	(26,386)
Exchange realignment	2,431	12,098	6,887	21,416
At 31 December 2011	121,959	414,473	161,056	697,488
Net book value:				
At 31 December 2011	140,404	183,895	81,490	405,789

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The leasehold land and buildings included above are held on the following lease terms:

	Hong Kong, professional valuation at 31 December 1993 less accumulated depreciation and impairment losses HK$'000	Hong Kong, at cost less accumulated depreciation HK$'000	Elsewhere, at cost less accumulated depreciation HK$'000	Total HK$'000
31 December 2012				
Medium-term leases	**8,536**	**–**	**125,010**	**133,546**
31 December 2011				
Medium-term leases	8,779	2,888	128,737	140,404

Had the Group's land and buildings been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK$127,348,000 (2011: HK$134,078,000).

As at 31 December 2012, certain leasehold land and buildings and certain plant and machinery of the Group with a net carrying value of approximately HK$12,617,000 (2011: HK$91,620,000) were pledged to secure general banking facilities granted to the Group (note 23(a)).

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2012 HK$'000	2011 HK$'000
Carrying amount at 1 January	**27,999**	27,723
Recognised during the year (note 6)	**(722)**	(711)
Disposals	**–**	(350)
Exchange realignment	**342**	1,337
Carrying amount at 31 December	**27,619**	27,999
Current portion included in prepayments, deposits and other receivables	**(730)**	(731)
Non-current portion	**26,889**	27,268

Prepaid land lease payments represent payments for land use rights held under medium-term leases in Mainland China.

At 31 December 2011, all of these land use rights of HK$27,999,000 were pledged to secure general banking facilities granted to the Group (note 23(a)). All of the pledge of these land use rights were released during the year.

15. TRADEMARKS

	Group	
	2012	2011
	HK$'000	HK$'000
Cost:		
At 1 January	**124,310**	124,274
Additions	**989**	36
At 31 December	**125,299**	124,310

The directors are in the opinion that the Group's trademarks have indefinite useful life due to following reasons:

(i) The trademarks, which were acquired by the Group in 1988, have been in use for a very long period of time, some of them since the 1930s, and will continue to be used for long term; and

(ii) The Group has incurred and intends to continue to incur significant advertising and promotion expenses, which are charged to the income statement when incurred, to maintain and increase the market value of its trademarks and brands.

Savills Valuation and Professional Services Limited, a firm of independent professionally qualified valuers, has confirmed, in its valuation of the Group's trademarks, that the fair value of the trademarks exceeded the carrying value as at 31 December 2012. Based on that, the directors considered that no impairment provision is necessary.

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	HK$'000	HK$'000
Unlisted shares, at cost	**5,351,656**	431,813
Amounts due from subsidiaries	**84,240**	46,687
Amounts due to subsidiaries	**(77,233)**	(12,508)
	5,358,663	465,992

Except for an amount due from a subsidiary amounting to HK$10,000,000 (2011: HK$14,000,000) as at 31 December 2012 which is repayable within 12 months, balances with subsidiaries are unsecured, interest-free and are not expected to be repaid in the next 12 months.

16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries as at 31 December 2012 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered and fully paid share capital	Percentage of equity attributable to the Company	Principal activities
Asset Paradise Limited	British Virgin Islands/ Hong Kong	US$2	100	Investment holding
Beijing Yoshinoya Fast Food Company Limited*	People's Republic of China/ Mainland China	RMB18,770,000	100	Fast food restaurant operation
Best Realm Profits Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Bravo Gain Holdings Limited	Hong Kong	HK$1	100	Investment holding
Champ Base Investments Limited	Hong Kong	HK$1	100	Provision of management services
Dalian Hexing Fast Food Company Limited*	People's Republic of China/ Mainland China	US$800,000	100	Fast food restaurant operation
Excel Leader Group Limited	Hong Kong	HK$1	100	Investment holding
Harbin Hop Hing Catering Management Limited*	People's Republic of China/ Mainland China	RMB2,000,000	100	Fast food restaurant operation
Hawick Limited	Hong Kong	HK$1,000,000	100	Investment holding
Hop Hing Fast Food China North Investment Company Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding and provision of management services
Hop Hing Fast Food Group Holdings Limited (formerly known as Summerfield Profits Limited)	British Virgin Islands/ Hong Kong	US$46,509	100	Investment holding
Hop Hing Food Products Limited	Hong Kong	HK$2	100	Procurement of edible oils and investment holding
Hop Hing Fast Food Limited	Hong Kong	HK$7,000,000	100	Provision of management services
Hop Hing Franchise Limited	Hong Kong	HK$1	100	Provision of management services
Hop Hing Holdings Limited	Bermuda/Hong Kong	HK$100	100	Investment holding
Hop Hing Investment (Liaoning) Company Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Hop Hing Oil Factory Limited	Hong Kong	HK$24,000,010	100	Bottling, packaging and distribution of edible oils
Hop Hing Oil (Holdings) Limited	Hong Kong	HK$88,241,505	100	Investment holding
Hop Hing Oil Investment Limited	Hong Kong	HK$1,000,010	100	Leasing of property, plant and equipment
Hop Hing Oil Procurement Limited	Hong Kong	HK$2	100	Procurement of edible oils
Hop Hing Oil Refinery Limited	Hong Kong	HK$10,000,000	100	Edible oils refinery
Hop Hing Oil Terminals (Guangzhou) Limited	British Virgin Islands	US$1,385,941	100	Investment holding
Hop Hing Oil Terminals (Pan Yu) Limited	British Virgin Islands	US$4,034,699	100	Investment holding

16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries as at 31 December 2012 are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered and fully paid share capital	Percentage of equity attributable to the Company	Principal activities
Hop Hing Oil Trading (2000) Limited	Hong Kong	HK$2	100	Distribution of edible oils
Hop Hing Oil Trading Limited	Hong Kong	HK$22	100	Distribution of edible oils
Hop Hing Oils & Fats (Hong Kong) Limited	Hong Kong	HK$2	100	Distribution of edible oils
Hop Hing Oils & Fats (Macau) Limited	Macau	MOP10,000	100	Distribution of edible oils
HuHeHaoTe Hop Hing Catering Management Company Limited*	People's Republic of China/ Mainland China	RMB500,000	100	Fast food restaurant operation
Inner Mongolia Xingmeng Foods Development Company Limited**#	People's Republic of China/ Mainland China	RMB3,800,000	84.21	Fast food restaurant operation
Knight Investment Limited	Hong Kong	HK$22	100	Property holding
Lapidus (1985) Limited	Hong Kong	HK$12	100	Barge ownership
Liaoning Hop Hing Fast Food Company Limited*	People's Republic of China/ Mainland China	HK$9,100,000	100	Fast food restaurant operation
Monitor Ltd.	British Virgin Islands	US$1	100	Trademark holding
Panyu Hop Hing Oils & Fats Co. Ltd.*	People's Republic of China/ Mainland China	HK$124,340,000	100	Bottling, packaging and distribution of edible oils
Panyu Kwong Hing Packaging Company, Limited*	People's Republic of China/ Mainland China	HK$50,000,000	100	Blending and distribution of edible oils
Sino Food Products Company (Holdings) Limited	Hong Kong	HK$10	100	Distribution of edible oils
Starwood Shine Limited	Hong Kong	HK$1	100	Investment holding
Top Charter Holdings Limited	British Virgin Islands	US$1	100	Production of edible oils

* Registered as wholly-foreign-owned enterprises under the PRC law

** Registered as a Sino-foreign equity joint venture enterprise under the PRC law

The subsidiary commenced its deregistration process in 2009 after expiry of its operation period. Up to the date of these financial statements, the deregistration process was still in progress.

Except for Hop Hing Holdings Limited and Hop Hing Fast Food, all the above principal subsidiaries are indirectly held by the Company.

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 other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

Particulars of the jointly-controlled entities as at 31 December 2012 are as follows:

			Percentage of			
Name	**Particulars of issued shares held**	**Place of incorporation/ operations**	**Ownership interest**	**Voting power**	**Profit sharing**	**Principal activities**
Evergreen Oils & Fats Limited	Ordinary shares of HK$1 each	Cayman Islands/ Hong Kong	50	50	50	Inactive
Hop Hing Oils and Fats Limited	Ordinary shares of HK$1 each	Hong Kong	50	50	50	Inactive
Lam Soon Oils and Fats Limited	Ordinary shares of HK$1 each	Hong Kong	50	50	50	Inactive
Landex Investments Limited	Ordinary shares of HK$1 each	Hong Kong	50	50	50	Inactive
Evergreen Oils & Fats (Macau) Limited	Ordinary shares of MOP30,000 in total	Macau	50	50	50	Inactive

These investments in jointly-controlled entities are indirectly held by the Company.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

Share of the jointly-controlled entities' assets and liabilities:

	2012 HK$'000	2011 HK$'000
Current assets	**56,177**	147,444
Non-current assets	**–**	6,438
Current liabilities	**(3,141)**	(98,682)
Non-current liabilities	**–**	(187)
Net assets	**53,036**	55,013

Share of the jointly-controlled entities' results:

	2012 HK$'000	2011 HK$'000
Turnover	**86,269**	380,454
Costs and expenses	**(88,395)**	(377,531)
Profit/(loss) before tax	**(2,126)**	2,923
Income tax credit/(expense)	**158**	(420)
Profit/(loss) after tax	**(1,968)**	2,503

18. STOCKS

	Group		
	31 December 2012 HK$'000	31 December 2011 HK$'000 (Restated)	1 January 2011 HK$'000 (Restated)
Finished goods	**25,940**	23,427	26,536
Work in progress	**–**	33	222
Raw materials	**197,522**	181,868	174,720
Consumables	**17,333**	17,524	10,444
	240,795	222,852	211,922

At 31 December 2012, certain of the Group's stocks with a carrying amount of HK$97,483,000 (2011: Nil) were pledged to secure general banking facilities granted to the Group (note 23(a)).

19. ACCOUNTS RECEIVABLE

	Group		
	31 December 2012 HK$'000	31 December 2011 HK$'000 (Restated)	1 January 2011 HK$'000 (Restated)
Accounts receivable	**163,026**	135,408	128,015
Impairment	**(15,218)**	(15,066)	(14,758)
	147,808	120,342	113,257

The Group's products are sold either on a cash on delivery basis, or on an open account basis with credit terms ranging from 7 to 70 days. Each customer has a maximum credit limit and overdue balances are regularly reviewed by the senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances. Accounts receivable are non-interest-bearing.

19. ACCOUNTS RECEIVABLE *(continued)*

An aged analysis of the accounts receivable as at the end of the reporting period, based on the payment due date and net of provisions, is as follows:

	Group		
	31 December 2012 HK$'000	31 December 2011 HK$'000 (Restated)	1 January 2011 HK$'000 (Restated)
Current (neither past due nor impaired)	**126,463**	91,801	79,371
Within 60 days past due	**15,865**	20,834	26,108
Over 60 days past due	**5,480**	7,707	7,778
	147,808	120,342	113,257

Certain of the above accounts receivable as at 31 December 2012 were factored to a bank in exchange for cash and the related bank loans have been included as "Interest-bearing bank loans" on the face of the consolidated statement of financial position (note 23).

At 31 December 2012, certain of the Group's accounts receivable with a carrying amount of HK$4,278,000 (2011: Nil) were pledged to secure general banking facilities granted to the Group (note 23(a)).

The movements in the impairment of accounts receivable are as follows:

	Group	
	2012 HK$'000	2011 HK$'000
At 1 January	**15,066**	14,758
Exchange realignment	**169**	638
Impairment losses recognised (note 6)	**57**	76
Uncollectible amounts written off	**(74)**	(406)
At 31 December	**15,218**	15,066

Included in the above impairment of accounts receivable is a provision for individually impaired accounts receivable. The individual impairment of accounts receivable relate to receivables which are expected not to be recoverable.

Receivables that were neither past due nor impaired relate to a number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have good track records with the Group. Based on past experience, the directors of the Company are of the opinion that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

19. ACCOUNTS RECEIVABLE *(continued)*

Included in the Group's accounts receivable are amounts totalling HK$24,609,000 (2011: HK$5,204,000) due from the Group's jointly-controlled entities which are repayable on credit terms comparable to those offered to other unrelated customers of the Group.

20. PLEDGED BANK DEPOSITS

The deposits were pledged to banks to secure certain bills payable (note 22) and bank loans (note 23(a)) of the Group.

21. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the end of the reporting period, based on the payment due date, is as follows:

	Group		
	31 December 2012 HK$'000	31 December 2011 HK$'000 (Restated)	1 January 2011 HK$'000 (Restated)
Current and less than 60 days	**175,816**	168,128	140,570
Over 60 days	**5,489**	5,827	3,182
	181,305	173,955	143,752

The accounts payable are non-interest-bearing and are normally settled within credit terms of 7 to 90 days.

At 31 December 2011, included in the Group's accounts payable were amounts of HK$4,665,000 due to certain companies associated with a venturer of the Group's jointly-controlled entities which were payable on credit terms comparable to those offered by other unrelated suppliers of the Group.

22. BILLS PAYABLE

Certain bills payable are secured by bank deposits of HK$4,214,000 (2011: HK$7,870,000) of the Group (note 20).

23. INTEREST-BEARING BANK LOANS

Group

	31 December 2012			31 December 2011 (Restated)			1 January 2011 (Restated)		
	Effective interest rate per annum %	Maturity	HK$'000	Effective interest rate per annum %	Maturity	HK$'000	Effective interest rate per annum %	Maturity	HK$'000
Current (repayable within one year or on demand)									
Bank loans – unsecured	**2.2**	**2013**	**85,952**	3.1	2012	100,994	3.0	2011	89,346
Bank loans on factored accounts receivable – unsecured (note 19)	**1.6**	**2013**	**29,037**	1.7	2012	22,294	1.7	2011	6,183
Bank loans – secured	**6.2**	**2013**	**34,250**	7.2	2012	105,478	7.1	2011	105,384
			149,239			228,766			200,913

Notes:

(a) Certain of the Group's bank loans are secured by:

(i) legal charge over certain of the Group's leasehold land and buildings and plant and machinery, which had aggregate carrying values at the end of the reporting period of approximately HK$12,617,000 (2011: HK$91,620,000) and nil of land use rights, classified as prepaid land lease payments (2011: HK$27,999,000),

(ii) the pledge of certain of the Group's time deposits amounting to HK$43,750,000 (2011: HK$37,037,000),

(iii) as at 31 December 2012, floating charges over certain of the Group's stocks amounting to HK$97,483,000 (2011: Nil),

(iv) as at 31 December 2012, floating charges over certain of the Group's accounts receivable amounting to HK$4,278,000 (2011: Nil).

(b) Fixed interest rate bank loans of HK$26,250,000 (2011: Fixed interest rate bank loans of HK$111,044,000 (restated) and floating interest rate bank loans of HK$31,471,000) are denominated in Renminbi. All other bank loans are denominated in Hong Kong dollars and with floating interest rates.

(c) As at 31 December 2011, secured interest-bearing bank loans included certain of the Group's bank loans of approximately HK$74,007,000 in Mainland China which were borrowed by a PRC subsidiary of the Group and secured by certain property, plant and equipment and prepaid land lease payments of certain PRC subsidiaries and have no recourse to the Group other than those PRC subsidiaries.

24. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year were as follows:

Deferred tax liabilities

Group

	Accelerated tax depreciation HK$'000	**Revaluation of properties HK$'000**	**Withholding taxes HK$'000**	**Total HK$'000**
At 1 January 2011 (restated)	1,478	412	18,373	20,263
Charged to the income statement during the year (note 10)	59	–	2,861	2,920
Withholding tax paid on repatriation of earnings from PRC subsidiaries	–	–	(10,969)	(10,969)
Exchange realignment	–	–	704	704
At 31 December 2011 and 1 January 2012 (restated)	1,537	412	10,969	12,918
Credited to the income statement during the year (note 10)	(860)	–	(1,520)	(2,380)
Withholding tax paid on repatriation of earnings from PRC subsidiaries	–	–	(2,967)	(2,967)
Exchange realignment	–	–	(171)	(171)
At 31 December 2012	**677**	**412**	**6,311**	**7,400**

Deferred tax assets

Group

	Losses available for offsetting against future taxable profits HK$'000
At 1 January 2011	989
Charged to the income statement during the year (note 10)	(513)
At 31 December 2011 and 1 January 2012	476
Credited to the income statement during the year (note 10)	864
At 31 December 2012	**1,340**

24. DEFERRED TAX *(continued)*

Deferred tax assets *(continued)*

At 31 December 2012, the Group had tax losses of HK$13,380,000 (2011: HK$2,986,000) arising in Hong Kong that were available indefinitely for offsetting against future taxable profits of the relevant companies. The Group also had tax losses of HK$51,129,000 (2011: HK$38,214,000) arising in Mainland China for offsetting against future taxable profits of the relevant companies in one to five years. Tax losses of HK$8,124,000 (2011: HK$2,886,000) arising in Hong Kong have been recognised as deferred tax assets on the expected future profit streams. Deferred tax assets in respect of tax losses of HK$5,256,000 (2011: HK$100,000) and HK$51,129,000 (2011: HK$38,214,000) arising in Hong Kong and Mainland China, respectively, have not been recognised as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rates are 5% and 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The Company's deferred tax assets of approximately HK$885,000 (2011: HK$11,000) have been recognised in respect of tax losses of HK$5,361,000 (2011: HK$69,000) on the expected future profit streams. Deferred tax assets of HK$874,000 (2011: HK$9,000) were credited to the income statement during the year.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		
	31 December 2012 HK$'000	31 December 2011 HK$'000 (Restated)	1 January 2011 HK$'000 (Restated)
Prepayments	**47,857**	28,098	44,474
Deposits	**49,777**	45,667	31,669
Other receivables	**33,705**	19,967	20,841
	131,339	93,732	96,984
Current portion included in prepayments, deposits and other receivables	**(90,234)**	(61,103)	(71,124)
Non-current portion: rental deposits	**41,105**	32,629	25,860

The balances of deposits and other receivables were neither past due nor impaired. Financial assets included in the above balances relate to receivables for which there was no recent history of default.

26. CASH AND CASH EQUIVALENTS

	Group		
	31 December 2012 HK$'000	31 December 2011 HK$'000 (Restated)	1 January 2011 HK$'000 (Restated)
Cash and bank balances	**182,091**	369,888	227,222
Non-pledged time deposits with original maturity of less than three months when acquired	**–**	27,672	–
Non-pledged time deposits with original maturity of more than three months when acquired	**10,000**	67,901	47,082
	192,091	465,461	274,304
Cash and cash equivalents are denominated in:			
HK$	**28,917**	44,154	23,160
RMB	**156,656**	414,097	244,095
Macanese Pataca ("MOP")	**5,495**	647	1,436
United States dollar	**1,014**	6,562	5,609
Others	**9**	1	4
	192,091	465,461	274,304

RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposits rates. The bank balances are deposited with creditworthy banks with no recent history of default.

27. OTHER PAYABLES AND ACCRUED CHARGES

	Group		
	31 December 2012 HK$'000	31 December 2011 HK$'000 (Restated)	1 January 2011 HK$'000 (Restated)
Other payables	**81,158**	54,106	63,315
Dividend payable to the former shareholders of a subsidiary	**57,333**	155,496	–
Accrued charges	**167,081**	152,430	91,756
Total	**305,572**	362,032	155,071

Other payables are non-interest-bearing and have average payment terms of one to three months.

28. SHARE CAPITAL

	31 December 2012 HK$'000	31 December 2011 HK$'000
Authorised:		
14,800,000,000 (2011: 800,000,000) ordinary shares of HK$0.10 each	**1,480,000**	80,000
Issued and fully paid:		
9,916,871,030 (2011: 515,661,188) ordinary shares of HK$0.10 each	**991,687**	51,566

Pursuant to a resolution passed on 17 January 2012, the authorised share capital of the Company was increased from HK$80,000,000 to HK$1,480,000,000 by the creation of additional 14,000,000,000 unissued shares of HK$0.1 each, ranking pari passu in all respects with the existing shares of the Company.

A summary of the movements in the Company's issued ordinary share capital during the year is as follows:

	Notes	**Number of shares in issue**	**Issued share capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
Issued:					
At 1 January 2011		511,539,906	51,154	11,143	62,297
Issue of shares upon exercise of warrants	(a)	4,121,282	412	412	824
Share issue expenses		–	–	(42)	(42)
At 31 December 2011 and 1 January 2012		515,661,188	51,566	11,513	63,079
Issue of shares upon exercise of warrants	(b)	5,988,350	599	599	1,198
Issue of shares upon exercise of share options	(c)	3,329,600	333	1,489	1,822
Conversion of PSCS (note 29)		9,391,891,892	939,189	4,022,193	4,961,382
At 31 December 2012		**9,916,871,030**	**991,687**	**4,035,794**	**5,027,481**

Notes:

(a) During the year ended 31 December 2011, 4,121,282 ordinary shares of HK$0.10 each were issued for cash at a subscription price of HK$0.20 per share, pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of approximately HK$824,000.

(b) During the year ended 31 December 2012, 5,988,350 ordinary shares of HK$0.10 each were issued for cash at a subscription price of HK$0.20 per share, pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of approximately HK$1,198,000.

(c) During the year ended 31 December 2012, the subscription rights attaching to 3,329,600 share options were exercised at the subscription price of HK$0.35 per share (note 30), resulting in the issue of 3,329,600 shares of HK$0.1 each for a total cash consideration, before expenses, of approximately HK$1,165,000. An amount of approximately HK$657,000 was transferred from the share option reserve to share premium account upon exercise of share options.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 30 to the financial statements.

28. SHARE CAPITAL *(continued)*

Warrants

During the year ended 31 December 2011, 4,121,282 ordinary shares of HK$0.10 each were issued for cash at a subscription price of HK$0.20 per share, pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of approximately HK$824,000.

During the year ended 31 December 2012, 5,988,350 ordinary shares of HK$0.10 each were issued for cash at a subscription price of HK$0.20 per share, pursuant to the exercise of the Company's warrants for a total cash consideration, of approximately HK$1,198,000. At the end of the reporting period, the Company had 91,414,545 warrants outstanding. The exercise in full of such warrants would, under the capital structure of the Company, result in the issue of 91,414,545 additional ordinary shares of HK$0.10 each.

Subsequent to the end of the reporting period, 881,614 ordinary shares of HK$0.10 each were issued for cash at a subscription price of HK$0.20 per share, pursuant to the exercise of the Company's warrants for a total consideration, before expenses, of approximately HK$176,000.

29. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

On 1 December 2011, the Company entered into an acquisition agreement in respect of the Acquisition at a consideration of HK$3,475,000,000 to be satisfied by issuing PSCS carrying the rights to convert into 9,391,891,892 new ordinary shares of the Company at an initial conversion price of HK$0.37 per share. The transaction was completed and the Company issued the PSCS on 12 March 2012. These PSCS have no maturity date and the Company has no contractual obligation to redeem these PSCS. The fair value of these PSCS issued on the completion date of the Acquisition amounted to approximately HK$4,964,232,000, which is determined by reference to a valuation report on the PSCS prepared by an independent firm of valuers.

These PSCS constitute direct, unsecured and subordinated obligations of the Company and rank pari passu without any preference or priority among themselves. In the event of the winding-up of the Company, the rights and claims of the holders of the PSCS shall (i) rank ahead of those persons whose claims are in respect of any class of share capital (including preference shares) of the Company; (ii) at all times rank pari passu with each other and with all its other present and future unsecured and subordinated obligations but shall be subordinated in rights of payment to the claims of all other present and future senior and unsubordinated creditors of the Company.

These PSCS confer a right to receive distribution from and including the date of the issue of the PSCS at 3.5% per annum on any outstanding principal amount of the PSCS payable quarterly in arrears on 31 March, 30 June, 30 September and 31 December each year, subject to the terms and conditions of the PSCS. However, the Company may at its sole discretion, elect to defer a distribution pursuant to the terms of the PSCS. If on any distribution payment date, payment of all distribution payments scheduled to be made on such date is not made in full, the Company shall not: (a) declare or pay any dividends on ordinary shares; (b) redeem, reduce, cancel, buy back any ordinary shares, unless and until the Company satisfied in full all outstanding arrears of distribution or it is permitted to do so by an extraordinary resolution of the holders of the PSCS.

During the year ended 31 December 2012, all PSCS holders exercised their conversion rights to convert all of their PSCS into an aggregate 9,391,891,892 ordinary shares of the Company. The PSCS distribution of HK$66,358,000 for the period up to the date of conversion of the PSCS was distributed and paid by the Company on 28 September 2012.

30. SHARE OPTIONS

On 12 March 2008, the Company adopted a share option scheme (the "Share Option Scheme") which became effective on 25 April 2008.

The main purpose of the Share Option Scheme is to attract, retain and reward the participants and to provide the participants with a performance incentive for continued and improved services with the Group. The participants of the Share Option Scheme include any full-time employee and any director of the Group, and any person approved by the board of directors or shareholders of the Company. The Share Option Scheme became effective on 25 April 2008 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum aggregate number of shares of HK$0.10 each in the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed in aggregate 10% of the shares in issue from time to time (the "Overall Scheme Limit"). No options may be granted under any scheme of the Company if such grant will result in the Overall Scheme Limit being exceeded.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other scheme must not in aggregate exceed 10% of the shares in issue as at the effective date of the Share Option Scheme (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit.

Subject to the Overall Scheme Limit, the Company may seek approval from its shareholders in a general meeting for refreshing the Scheme Mandate Limit. However, the total number of shares which may be issued upon exercise of all options to be granted under the refreshed limit must not exceed 10% of the shares in issue as at the date of approval of the shareholders of the Company of the refreshing of the Scheme Mandate Limit.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue.

The period within which the options may be exercised in accordance with the terms of the Share Option Scheme, shall: (i) be determined by the directors; (ii) commence on the expiration of 12 months (or such shorter period as may be determined by the directors) from the date of offer of options; and (iii) in any event not less than 3 years or more than 10 years from the date on which it commences.

The offer of a grant of options must be accepted within 21 days from the date of the offer. The exercise price of an option to subscribe for shares granted pursuant to the Share Option Scheme shall not be less than the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date on which an offer is made to a participant, which must be a business day; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date on which an offer is made.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

30. SHARE OPTIONS *(continued)*

The following share options under the Share Option Scheme of the Company were outstanding during the year and as at 31 December 2012:

	Number of share options						Price of the Company's shares			
Name or category of participant	At 1 January 2012	Granted and lapsed during the year	Exercised during the year	At 31 December 2012	Date of grant (Note b)	Exercise period	Exercise price (Note c) HK$ per share	At date of grant (Note d) HK$ per share	Immediately before the exercise date (Note e) HK$ per share	At date of exercise (Note f) HK$ per share
Directors										
Hung Hak Hip, Peter	4,928,000	–	–	4,928,000	27 April 2009	27 April 2010 to 26 April 2019	0.35	0.35	N/A	N/A
Wong Yu Hong, Philip	2,464,000	–	–	2,464,000	27 April 2009	27 April 2010 to 26 April 2019	0.35	0.35	N/A	N/A
Sze Tsai To, Robert	2,464,000	–	–	2,464,000	27 April 2009	27 April 2010 to 26 April 2019	0.35	0.35	N/A	N/A
Cheung Wing Yui, Edward	2,464,000	–	–	2,464,000	27 April 2009	27 April 2010 to 26 April 2019	0.35	0.35	N/A	N/A
Seto Gin Chung, John	2,464,000	–	–	2,464,000	27 April 2009	27 April 2010 to 26 April 2019	0.35	0.35	N/A	N/A
Shek Lai Him, Abraham	2,464,000	–	–	2,464,000	27 April 2009	27 April 2010 to 26 April 2019	0.35	0.35	N/A	N/A
Hung Chiu Yee	2,464,000	–	(2,464,000)	–	27 April 2009	27 April 2010 to 26 April 2019	0.35	0.35	0.410	0.415
Lee Pak Wing	2,464,000	–	–	2,464,000	27 April 2009	27 April 2010 to 26 April 2019	0.35	0.35	N/A	N/A
Wong Kwok Ying	4,928,000	–	–	4,928,000	27 April 2009	Commencement subject to Note a below and up to 26 April 2019	0.35	0.35	N/A	N/A
Lam Fung Ming, Tammy	2,464,000	–	–	2,464,000	27 April 2009	Commencement subject to Note a below and up to 26 April 2019	0.35	0.35	N/A	N/A
	29,568,000	–	(2,464,000)	27,104,000						
Employees	4,000,000	(634,400)	(865,600)	2,500,000	27 April 2009	Commencement subject to Note a below and up to 26 April 2019	0.35	0.35	0.454	0.450
	33,568,000	(634,400)	(3,329,600)	29,604,000						

Notes:

(a) Subject to certain performance targets being met by the participants, the participants may, at any time as may be prescribed by the board of directors at its discretion, be notified (the "Date of Notification") of the vesting of the share options and the number of shares comprised in vested share options. Thereafter, the participants shall have the right to exercise the vested share options within the exercise period from the respective Date of Notification and up to 26 April 2019 in accordance with the terms of their grant.

(b) Subject to note (a) above, the share options are subject to vesting periods which run from the date of grant to the commencement of the exercise period.

(c) The exercise price of the share options is subject to adjustments.

(d) The price of the Company's shares disclosed is the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the day specified.

(e) The price of the Company's shares disclosed is the weighted average of the Stock Exchange's daily quotation sheet closing prices immediately before the dates on which the options were exercised by the employees over all of the exercises of options within the disclosure line.

(f) The price of the Company's shares disclosed is the weighted average of the Stock Exchange's daily quotation sheet closing prices on the dates which the options were exercised by the employees over all of the exercises of options within the disclosure line.

30. SHARE OPTIONS *(continued)*

The fair value of the share options granted in the year ended 31 December 2009 was HK$6,718,000 (HK$0.197 each), of which the Group recognised an equity-settled share option expense of HK$74,000 (2011: HK$339,000) during the year ended 31 December 2012.

The 3,329,600 share options exercised during the year resulted in the issue of 3,329,600 ordinary shares of the Company and new share capital of approximately HK$333,000 and share premium of approximately HK$1,489,000 (before issue expenses), as further detailed in note 28 to the financial statements.

As at 31 December 2012, the Company had 29,604,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 29,604,000 additional ordinary shares of the Company and additional share capital of HK$2,960,400 and share premium of HK$7,401,000 (before issue expenses).

No options were granted during the year.

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) Company

	Share premium account HK$'000	PSCS HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2011	11,143	–	6,306	388,224	(5,727)	399,946
Profit and total comprehensive income for the year	–	–	–	–	3,113	3,113
Issue of shares upon exercise of warrants (note 28)	412	–	–	–	–	412
Share issue expenses (note 28)	(42)	–	–	–	–	(42)
Equity-settled share option arrangements (note 30)	–	–	339	–	–	339
At 31 December 2011 and 1 January 2012	11,513	–	6,645	388,224	(2,614)	403,768
Profit and total comprehensive income for the year	–	–	–	–	3,346	3,346
Issue of shares upon exercise of warrants (note 28)	599	–	–	–	–	599
Exercise of share options (note 28)	1,489	–	(657)	–	–	832
Issuance of PSCS (note 29)	–	4,964,232	–	–	–	4,964,232
PSCS issue expenses	–	(2,850)	–	–	–	(2,850)
Conversation of PSCS (note 28)	4,022,193	(4,961,382)	–	–	–	(939,189)
PSCS distribution (note 29)	–	–	–	(66,358)	–	(66,358)
Equity-settled share option arrangements (note 30)	–	–	74	–	–	74
At 31 December 2012	**4,035,794**	**–**	**6,062**	**321,866**	**732**	**4,364,454**

31. RESERVES *(continued)*

(b) Company *(continued)*

The Company's contributed surplus represents the difference between the nominal value of shares of HK$0.10 each of the Company allotted under a reorganisation whereby Hop Hing Holdings Limited ("HHHL"), the then ultimate holding company of the Group, became a wholly-owned subsidiary of the Company, and the consolidated shareholders' equity of HHHL and its subsidiaries as at 25 April 2008, the date on which this reorganisation became effective. Details of this reorganisation were set out in HHHL's scheme document dated 14 March 2008.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

Pursuant to the Companies Law of the Cayman Islands, the net amount of reserves distributable to shareholders of the Company as at 31 December 2012 amounted to HK$4,358,392,000 (2011: HK$397,123,000), the distribution of which is subject to the condition that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

32. DISPOSAL OF SUBSIDIARIES

On 9 February 2012, the Group entered into a sale and purchase agreement with Hin Keung International Limited, an independent third party, to dispose of 100% equity interests in Hong Kong Pinghu Oil Factory Limited (formerly named as Hong Kong Hop Hing Oil Refinery (Pinghu) Limited) and its subsidiary for a cash consideration of HK$6,678,000. The disposal was completed during the year ended 31 December 2012.

	Note	**2012** **HK$'000**
Net assets disposed of:		
Accounts receivable		**9**
Other receivables		**721**
Cash and cash equivalents		**12,225**
Other payable		**(1,235)**
Non-controlling interests		**(4,981)**
		6,739
Capital and other reserve		**1,690**
Exchange fluctuation reserve		**(1,040)**
Loss on disposal of subsidiaries	6	**(711)**
		6,678
Satisfied by cash		**6,678**

32. DISPOSAL OF SUBSIDIARIES *(continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2012 **HK$'000**
Cash consideration	**6,678**
Cash and cash equivalents disposed of	**(12,225)**
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	**(5,547)**

33. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its shops, office premises, plant and warehouse under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to twenty years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012 **HK$'000**	2011 HK$'000 (Restated)
Within one year	**265,360**	210,345
In the second to fifth years, inclusive	**845,616**	657,177
Beyond five years	**713,143**	591,831
	1,824,119	1,459,353

In addition, the operating lease rentals for certain shops are based on the higher of a fixed rental and contingent rent based on sales of these shops pursuant to the terms and conditions as set out in the respective rental agreements. As the future sales of these shops could not be accurately determined, the relevant contingent rent has not been included above and only minimum lease commitments have been included in the above table.

The Company had no significant operating lease arrangements at the end of the reporting period (2011: Nil).

34. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following commitments for capital expenditure:

	Group	
	2012	2011
	HK$'000	HK$'000
		(Restated)
Property, plant and equipment:		
Contracted, but not provided for	**5,746**	2,890
Authorised, but not contracted for	**–**	13

The Company had no significant capital commitments at the end of the reporting period (2011: Nil).

35. OUTSTANDING COMMITMENT

Outstanding commitment as at the end of the reporting period was as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Irrecoverable letter of credit	**20,423**	–

The Company had no significant outstanding commitments at the end of the reporting period (2011: Nil).

36. CONTINGENT LIABILITIES

Group

During the year ended 31 December 2010, the Hong Kong Inland Revenue Department (the "IRD") issued protective assessment for the year of assessment 2003/2004 to a jointly-controlled entity of the Group, in respect of which a tax reserve certificate amounted to HK$2,800,000 was purchased. During the year ended 31 December 2011, the IRD issued protective assessments for the year of assessment 2004/2005 to the jointly-controlled entity and a subsidiary of the Group, in respect of which tax reserve certificates amounted to HK$4,000,000 and HK$1,500,000 were purchased, respectively. During the year ended 31 December 2012, the IRD further issued protective assessments for the year of assessment 2005/2006 to certain jointly-controlled entities and certain subsidiaries of the Group, in respect of which tax reserve certificates amounted to HK$6,800,000 were purchased by the jointly-controlled entities. Subsequent to 31 December 2012, the IRD further issued protective assessments for the year of assessment 2006/2007 to certain jointly-controlled entities and certain subsidiaries of the Group, in respect of which tax reserve certificates amounted to HK$10.5 million were purchased by the jointly-controlled entities. The jointly-controlled entities and the Group have lodged objections with the IRD against these assessments.

In the opinion of the directors, the Group has grounds to contest the protective tax assessments, thus provision for Hong Kong profits tax in respect of these assessments at this stage is not considered necessary.

Company

At the end of the reporting period, the contingent liabilities of the Company in respect of guarantees given to a bank to secure banking facilities utilised by subsidiaries amounted to HK$123,334,000 (2011: HK$22,704,000).

37. RELATED PARTY TRANSACTIONS

(a) In addition to those transactions and balances disclosed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	Notes	**2012 HK$'000**	2011 HK$'000 (Restated)
Transactions with jointly-controlled entities*:			
Sales of goods	(i)	**8,795**	25,851
Purchases of goods	(i)	**91,527**	–
Production and oil refinement income	(ii)	**14,079**	66,611
Royalty income	(iii)	**–**	13,311
Property rental income	(iv)	**86**	361
Management fee income	(v)	**692**	4,766
Purchases of items of property, plant and equipment	(vi)	**2,395**	–
Transactions with companies associated with the controlling shareholder of the Company and/ or a non-executive director of the Company:			
Rental expenses	(vii)	**259**	–
Management fee expense	(viii)	**–**	3,328
Expense recharged	(ix)	**–**	10,307
Continuing connected transactions:			
Sales of goods	(i)	**3,663**	5,483
Rental expenses	(vii)	**5,216**	4,320

* The Group has proportionately consolidated 50% of its transactions with its jointly-controlled entities in the consolidated income statement.

Notes:

(i) The sales and purchases of goods were based on mutually agreed terms.

(ii) The production and oil refinement income was based on agreements entered into with a jointly-controlled entity after an arm's length negotiation and was at rates not less favourable than those offered to other unrelated customers of the Group.

(iii) Pursuant to trademark license agreements entered into between the Group and certain jointly-controlled entities, the royalties received for the use of the trademarks are calculated based on a percentage, as agreed between the parties from time to time, on the gross sales value of licensed products sold by the jointly-controlled entities within Hong Kong and Macau.

(iv) The property rental income related to the subletting of certain properties. The property rental income was charged by reference to open market rental and was subject to review on a regular basis.

(v) The management fee income was based on the cost incurred for providing such services.

37. RELATED PARTY TRANSACTIONS *(continued)*

(a) Notes: *(continued)*

(vi) The items of property, plant and equipment were purchased at the carrying amount of the relevant assets.

(vii) The rental expenses were paid by reference to open market rental and were subject to the terms of the relevant tenancy agreements.

(viii) Management fee to a related company of which certain directors were also directors of the Company was based on mutually agreed terms.

(ix) The expenses were charged on an actual incurred basis by a related company of which certain directors were also directors of the Company.

The transactions with companies associated with the controlling shareholders of the Company and/or a non-executive director of the Company as set out above constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules, except for those transacted by the subsidiaries under QSR prior to the Acquisition. Further details of the continuing connected transactions that are subject to the reporting requirement under the Listing Rules are included in the report of the directors under the heading of "Continuing Connected Transactions".

(b) On 1 December 2011, the Company and Queen Board, a company controlled by a substantial shareholder of the Company, entered into an acquisition agreement pursuant to which Queen Board agreed to sell the entire issued share capital of Hop Hing Fast Food and the Loan for a consideration satisfying by an issue of the PSCS by the Company (note 29). Details of the Acquisition have been set out in note 1 and the Company's announcements made on 1 December 2011 and 12 March 2012 and circular dated 30 December 2011.

(c) Outstanding balances with related parties:

(i) Details of the Group's trade balances with jointly-controlled entities as at the end of the reporting period are disclosed in note 19 to the financial statements.

(ii) The Group's jointly-controlled entities had outstanding balances payable to certain companies associated with its other venturer as at 31 December 2011. Further details are disclosed in note 21 to the financial statements.

(iii) Details of a subsidiary's dividend payable to its former shareholders associated with certain directors of the Company are disclosed in note 27 to the financial statements.

(d) Compensation of key management personnel of the Group:

	2012 **HK$'000**	2011 HK$'000
Short-term employee benefits	**8,161**	3,029
Post-employment benefits	**279**	234
Equity-settled share option expense	**–**	210
Total compensation paid to key management personnel	**8,440**	3,473

Further details of directors' emoluments are included in note 8 to the financial statements.

37. RELATED PARTY TRANSACTIONS *(continued)*

(e) Particular of the amounts due from related companies disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Amount due from related companies

	As at 31 December 2012 HK$'000	**Maximum amount outstanding during the year ended 31 December 2012 HK$'000**	As at 31 December 2011 HK$'000	Maximum amount outstanding during the year ended 31 December 2011 HK$'000	As at 1 January 2011 HK$'000
Beijing China (2004) Limited	–	**51**	51	51	–
Beijing China Option Limited	–	**49**	49	49	–
Best Theme Limited	–	–	–	1,124	1,124
Fit Run Limited	–	–	–	1,347	1,347
Hop Hing Food Group Limited	–	**55**	55	319	319
Hop Hing Properties Limited	–	–	–	298	298
Pinta Profits Limited	–	–	–	151	151
Service Store Company Limited	–	–	–	163	163
Whole Strength Group Limited	–	–	–	143	143
大連合興比薩有限公司	–	–	–	5,523	5,523
北京合興餐飲管理有限公司	–	**21**	21	20,818	20,818
北京合興隆餐飲有限公司	–	–	–	2,355	2,355
北京合興潮百合餐飲管理有限公司	–	–	–	232	232
Others	–	**9**	9	435	435
	–	**185**	185	33,008	32,908

The balances with the related companies were unsecured, interest-free and repayable on demand.

(f) The balances with then shareholders of subsidiaries were unsecured, interest-free and repayable on demand.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable, other receivables, accounts payable, bills payables, other payables and accrued charges, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and commodity price risk. The board of directors reviews and agrees policies for managing each of these risks, which are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans carrying floating interest rates. The Group monitors its interest rate exposure closely and considers taking measures to reduce significant interest rate exposure, if necessary.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

The Group operates mainly in Hong Kong and Mainland China and its monetary assets, liabilities and transactions are principally denominated in Hong Kong dollars, Renminbi or United States dollars.

The management monitors the Group's foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

Given that the Hong Kong dollar is pegged to the United States dollar, the Group does not have a foreign currency hedging policy on it. The translation differences arising from fluctuation in the exchange rate of Renminbi are reflected in the Group's equity and profit after tax, where appropriate.

The following table demonstrates the sensitivity at the end of the reporting period to reasonably possible change in the Renminbi exchange rate, with all other variables held constant, of the Group's equity and profit after tax.

	Increase/ (decrease) in RMB rate	**Increase/ (decrease) in the Group's equity**	**Increase/ (decrease) in the Group's profit after tax**
	%	HK$'000	HK$'000
2012			
If Hong Kong dollars weakens against RMB	**5**	**20,583**	**1,803**
If Hong Kong dollars strengthens against RMB	**(5)**	**(20,583)**	**(1,803)**
2011			
If Hong Kong dollars weakens against RMB	5	14,547	3,242
If Hong Kong dollars strengthens against RMB	(5)	(14,547)	(3,242)

Credit risk

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. With such policies in place, the Group has been able to maintain its bad debts at a reasonable level. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's accounts receivable are widely diversified to a large number of customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable are disclosed in note 19 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., accounts receivable) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans to meet its working capital and capital expenditure requirements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was less than one year.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Commodity price risk

The major raw materials used in the production of the Group's products include beef, chicken meat, pork and crude edible oils. The Group is exposed to fluctuations in the prices of these raw materials which are subject to global as well as regional supply and demand and other factors. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group did not enter into any commodity derivative instruments to hedge the potential commodity price changes during the years ended 31 December 2012 and 2011.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2011.

The Group monitors capital using a gearing ratio, which is expressed as a percentage of interest-bearing bank loans over equity attributable to equity holders of the Company. The gearing ratios as at the end of the reporting periods were as follows:

	Group		
	31 December 2012 HK$'000	31 December 2011 HK$'000 (Restated)	1 January 2011 HK$'000 (Restated)
Interest-bearing bank loans	**149,239**	228,766	200,913
Equity attributable to equity holders of the Company	**714,853**	568,527	586,778
Gearing ratio	**21%**	40%	34%

39. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, on 19 March 2013, the directors recommended the payment of a final dividend of HK0.25 cent per ordinary share in respect of the year. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final dividend payable.

40. COMPARATIVE AMOUNTS

As explained in note 2.1, the Acquisition is regarded as common control combinations and accounted for using the principles of merger accounting in accordance with the Accounting Guideline No. 5 issued by the HKICPA. Upon completion, the financial statements of Hop Hing Fast Food and its subsidiaries are included in the consolidated financial statements of the Group for the year ended 31 December 2012 as if the combinations had occurred from the date when Hop Hing Fast Food and its subsidiaries first came under common control of the substantial shareholder. Comparative figures as at 31 December 2011 and for the year ended 31 December 2011 were also restated to present on the same basis.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2013.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out below.

	Year ended 31 December				
	2012 HK$'000	2011 HK$'000 (Restated)	2010 HK$'000 (Restated)	2009 HK$'000 (Restated)	2008 HK$'000 (Restated)
RESULTS					
Turnover	**2,878,212**	2,450,307	2,003,359	1,816,982	1,791,061
Profit from operating activities	**213,655**	231,043	194,501	145,091	127,825
Finance costs	**(9,919)**	(11,968)	(10,112)	(9,935)	(13,252)
Share of losses of associates	**–**	–	–	(23)	(182)
Profit before tax	**203,736**	219,075	184,389	135,133	114,391
Income tax expense	**(59,541)**	(62,754)	(57,417)	(39,473)	(36,907)
Profit for the year	**144,195**	156,321	126,972	95,660	77,484
Attributable to:					
Equity holders of the Company	**129,834**	75,348	61,253	49,398	43,312
Non-controlling interests	**14,361**	80,973	65,719	46,262	34,172
	144,195	156,321	126,972	95,660	77,484

	As at 31 December				
	2012 HK$'000	2011 HK$'000 (Restated)	2010 HK$'000 (Restated)	2009 HK$'000 (Restated)	2008 HK$'000 (Restated)
ASSETS					
Property, plant and equipment	**461,635**	405,789	397,684	374,608	360,522
Prepaid land lease payments	**26,889**	27,268	27,017	26,784	27,462
Trademarks	**125,299**	124,310	124,274	124,162	123,968
Investments in associates	**–**	–	–	(1,381)	(1,607)
Deferred tax assets	**1,340**	476	989	2,033	3,016
Rental deposits	**41,105**	32,629	25,860	19,937	17,915
Current assets	**720,895**	915,140	757,815	638,230	537,348
TOTAL ASSETS	**1,377,163**	1,505,612	1,333,639	1,184,373	1,068,624
LIABILITIES					
Current liabilities	**654,716**	850,581	603,023	503,896	487,926
Deferred tax liabilities	**7,400**	12,918	20,263	11,286	7,639
TOTAL LIABILITIES	**662,116**	863,499	623,286	515,182	495,565
NET ASSETS	**715,047**	642,113	710,353	669,191	573,059

The financial information for the years ended 31 December 2008, 2009, 2010 and 2011 has been restated to reflect the effect of application of Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by HKICPA. Details of which were disclosed in note 2.1 to the financial statements.