稻香集團

Tao Heung Holdings Limited

稻香控股有限公司*

(Incorporated in the Cayman Islands with Limited Liability)

Stock Code : 573

ANNUAL REPORT

2011

* For identification purposes only

Contents

Corporate Information

Board of Directors

Executive Directors

Mr. Chung Wai Ping *(Chairman)*
Mr. Wong Ka Wing
Mr. Chung Ming Fat
Mr. Leung Yiu Chun *(Chief Executive Officer)*
Ms. Wong Fun Ching
Mr. Ho Yuen Wah

Non-executive Directors

Mr. Fong Siu Kwong
Mr. Chan Yue Kwong, Michael

Independent Non-executive Directors

Mr. Li Tze Leung
Professor Chan Chi Fai, Andrew
Mr. Mak Hing Keung, Thomas
Mr. Ng Yat Cheung

Company Secretary

Mr. Leung Yiu Chun *FCCA, FCPA*

Authorised Representatives

Mr. Leung Yiu Chun
Mr. Ho Yuen Wah

Members of Audit Committee

Mr. Mak Hing Keung, Thomas *(Chairman)*
Mr. Li Tze Leung
Professor Chan Chi Fai, Andrew
Mr. Chan Yue Kwong, Michael

Members of Nomination Committee

Professor Chan Chi Fai, Andrew *(Chairman)*
Mr. Ng Yat Cheung
Mr. Chan Yue Kwong, Michael

Members of Remuneration Committee

Mr. Li Tze Leung *(Chairman)*
Mr. Fong Siu Kwong
Mr. Mak Hing Keung, Thomas

Registered Office

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

Principal Place of Business in Hong Kong

No. 18 Dai Fat Street, Tai Po Industrial Estate,
Tai Po, New Territories, Hong Kong

Principal Share Registrar

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, Grand Cayman
KY1–1107, Cayman Islands

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–16, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Principal Bankers

Bank of China (Hong Kong) Limited
Bank of East Asia, Limited
CITIC Bank International Limited
Dah Sing Bank Limited
DBS Bank (Hong Kong) Limited
Deutsche Bank AG, Hong Kong Branch
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
UBS, AG

Principal Auditors

Ernst & Young

Stock Code

573

Website

www.taoheung.com.hk

Financial Highlights and Calendar

Key Financial Ratios	Notes	2011 HK$'000	2010 HK$'000	Increase/ (Decrease) %
Performance				
Revenue		**3,576,099**	2,937,226	21.8%
Profit attributable to owners of the parent		**254,956**	219,386	16.2%
Gross profit margin		**15.6%**	15.2%	2.6%
Net profit margin	1	**7.1%**	7.5%	(5.3%)

		HK cents	HK cents	
Per Share Data				
Earnings per share				
– Basic		**25.08**	21.59	16.2%
– Dilutive		**24.98**	21.49	16.2%
Interim dividend per share		**6.20**	6.20	0.0%
Proposed final dividend per share		**6.60**	6.30	4.8%

	Notes	2011 HK$'000	2010 HK$'000	Increase/ (Decrease) %
Total assets		**1,950,855**	1,626,456	19.9%
Net assets		**1,395,732**	1,231,246	13.4%
Cash and cash equivalents		**311,445**	382,655	(18.6%)
Net cash	2	**289,577**	371,382	(22.0%)
Liquidity and Gearing				
Current ratio	3	**1.2**	1.5	(20.0%)
Quick ratio	4	**1.0**	1.3	(23.1%)
Gearing ratio	5	**1.6%**	0.9%	77.8%

		HK cents	HK cents	
Per Share Data				
Net assets per share	6	**137.20**	121.17	13.2%
Net cash per share	7	**28.47**	36.55	(22.1%)

Notes:

1. Net profit margin is calculated as net profit attributable to owners of the parent divided by revenue.
2. Net cash is cash and cash equivalents less interest-bearing bank borrowings.
3. Current ratio is calculated as current assets divided by current liabilities.
4. Quick ratio is calculated as current assets less inventories divided by current liabilities.
5. Gearing ratio is calculated at total debt (interest-bearing bank borrowings and finance lease payables) divided by total equity attributable to owners of the parent.
6. Net assets per share is calculated based on the number of 1,017,293,000 shares (2010: 1,016,141,000 shares).
7. Net cash per share is calculated based on the number of 1,017,293,000 shares (2010: 1,016,141,000 shares).

Calendar

Announcement of interim results	31 August 2011
Announcement of annual results	22 March 2012
Despatch of annual report to shareholders	18 April 2012
Closure of register of members	
for attending the annual general meeting	21 May 2012 to 24 May 2012
for proposed final dividend	1 June 2012 to 5 June 2012
Annual general meeting	24 May 2012
Dividends	
Interim: HK6.20 cents per share paid	7 October 2011
Final: HK6.60 cents per share payable on	6 June 2012

Chairman's Statement

Following two decades of success, ongoing vertical and horizontal integration will be pivotal for enabling the Group to realise as they represent the foundation on which growth is achieved.

On behalf of the board (the "Board") of directors (the "Directors") of Tao Heung Holdings Limited (the "Company" together with its subsidiaries, "Tao Heung" or the "Group"), I am pleased to present the annual results of the Group for the year ended 31 December 2011.

Escalating costs combined with inflationary pressure made for a highly challenging year for the Group. Undaunted, the management astutely leveraged strong consumption sentiment in China via an enhanced restaurant network to sustain growth and improve profitability. To specifically tackle the rising costs, we capitalised on our logistics centres, poultry farm and enhanced automated processes, as well as the adoption of still stricter cost control measures to mitigate their impact. Through shrewd negotiations, rent was also well managed during the reporting year. Consequently, the Group recorded satisfactory double-digit revenue and profit growth. Leveraging a solid foundation in Hong Kong, we will increase our pace of expansion in China to realise further progress.

In the light of the Group's healthy financial position, as well as our commitment to delivering fair returns to shareholders, the Board has recommended a final dividend of HK6.6 cents per share. Together with an interim dividend of HK6.2 cents per share already paid, total dividend per share will amount to HK12.8 cents for the financial year, representing a payout ratio of 51.0%.

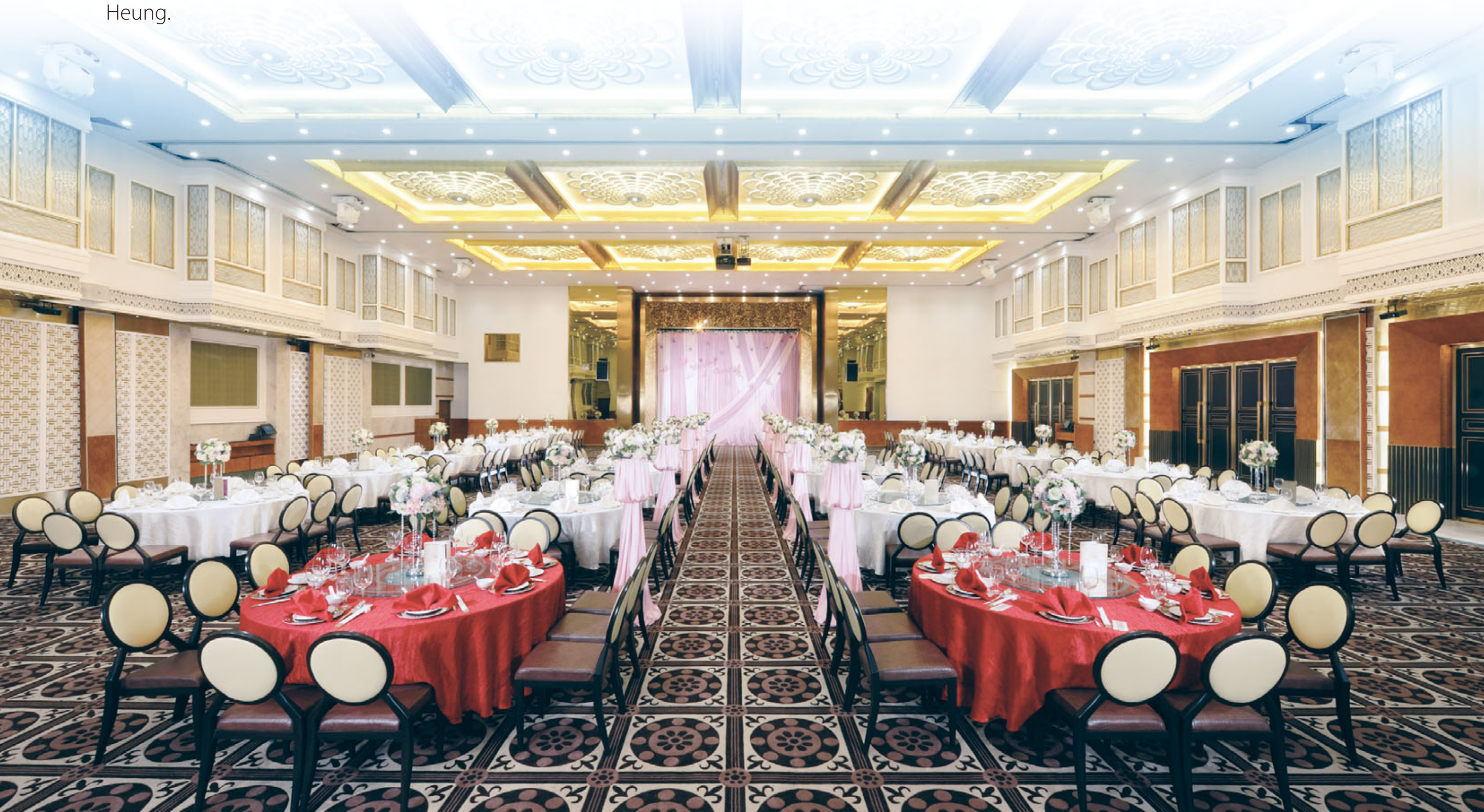
Steady growth amid challenging times in Hong Kong

The Hong Kong business continued to make steady advances during the year. With 2011 marking the 20th anniversary of Tao Heung, we took the opportunity to celebrate and capitalise on the occasion by launching special promotions that successfully retained customer traffic and enhanced awareness of brands under the Group. What is more, the shop expansion plan in Hong Kong proceeded well with an additional seven outlets contributing to top-line growth. Such contributions were instrumental in driving revenue upwards by 13.2% for the review year.

2011 was a testing year for most food caterers in Hong Kong, and Tao Heung was no exception. We saw a substantial rise in food cost and various operating expenses resulting from inflation; and more importantly, increased labour cost due to the implementation of statutory minimum wage in May 2011. Despite such pressure points, our efforts at improving efficiency and controlling costs through associated control measures, including automated processes re-engineering, proved effective, enabling the profit level to be at a similar level with the last reporting year.

Establishing a road map to sustained profitability in Mainland China

The economy and operating environment in Mainland China remained robust despite a depressed global economy resulting from the Euro Debt Crisis towards the end of 2011. As such, we stepped up our restaurant expansion efforts in the country with the aim of laying down a solid foundation for capturing further business growth in the future, as well as capitalise on the benefits associated with our maturing Dongguan Logistics Centre. With new shops strategically established in prime locations, including Huizhou and Shenzhen, revenue from the Mainland China business continued to climb as an increasingly affluent public warmly received the Tao Heung brand. Revenue rose by 59.2% year-on-year, which also substantiated the Group's strategy of focusing on the expanding wedding and banquet markets. In addition, profit increased significantly as a result of higher revenue, enhanced efficiency and greater food supply from the Dongguan Logistics Centre and poultry farm. Both the logistics centre and poultry farm must also be credited with ensuring the Group delivered the highest quality food, which is paramount in the face of consumers' growing concern for food safety – a concern that has also led to the public choosing Tao Heung.



Outlook – Committed to Building a New Decade of Growth

Following two decades of successes, we are even more motivated and determined to fuel growth as we commence writing a new chapter in our history. Consistent with this determination, we realise that ongoing vertical and horizontal integration will be pivotal as they represent the foundation on which growth is achieved.

In respect of vertical integration, we will actively look for potential opportunities to strengthen our food supply chain, which delivers the dual benefits of promoting greater cost efficiency and quality control. The Group's acquisition of a poultry farm in early 2011, which also enabled it to derive additional revenue, certainly substantiates the reasoning behind this strategy. Furthermore, such effort will help pave the way for realising our geographical expansion goals as they evolve in the coming years.

With regards to horizontal integration, we will certainly look to expand our network of restaurants. Having already made our mark in Chinese cuisine over the years, we will study the possibility of launching new cuisine. Likewise, we will look past existing geographical boundaries, moving beyond Hong Kong and Guangdong – our well-established strongholds – to new markets such as Guangxi, Shanghai, Wuhan and Shenyang, going so far as more northern and eastern regions of the country. Seven to eight new outlets are scheduled to open in 2012. By adopting a holistic approach of penetrating new markets as well as continuing deployment of our proven multi-branding strategy, we are optimistic that our horizontal integration efforts will be implemented efficiently and effectively.

Serving as an important junction that links our vertical and horizontal integration efforts will be our logistics centres. Both the Dongguan and Tai Po facilities have proven invaluable for enabling us to contain escalating costs, satisfy ever increasing food processing needs and bolster overall efficiency. As demand dictates following our horizontal integration, we will undoubtedly consider establishing additional logistic centres to complement our development goals.

The coming five years will represent the second phase of Tao Heung's master development plan since its listing. Through our vertical and horizontal integration efforts, we will have the necessary groundwork for realising our goal of creating a nationwide catering network. By 2017, this will include the operation of 200 outlets that offer different kinds of Chinese cuisine and baked goods, thus facilitating our long-term development and further rise in prominence.

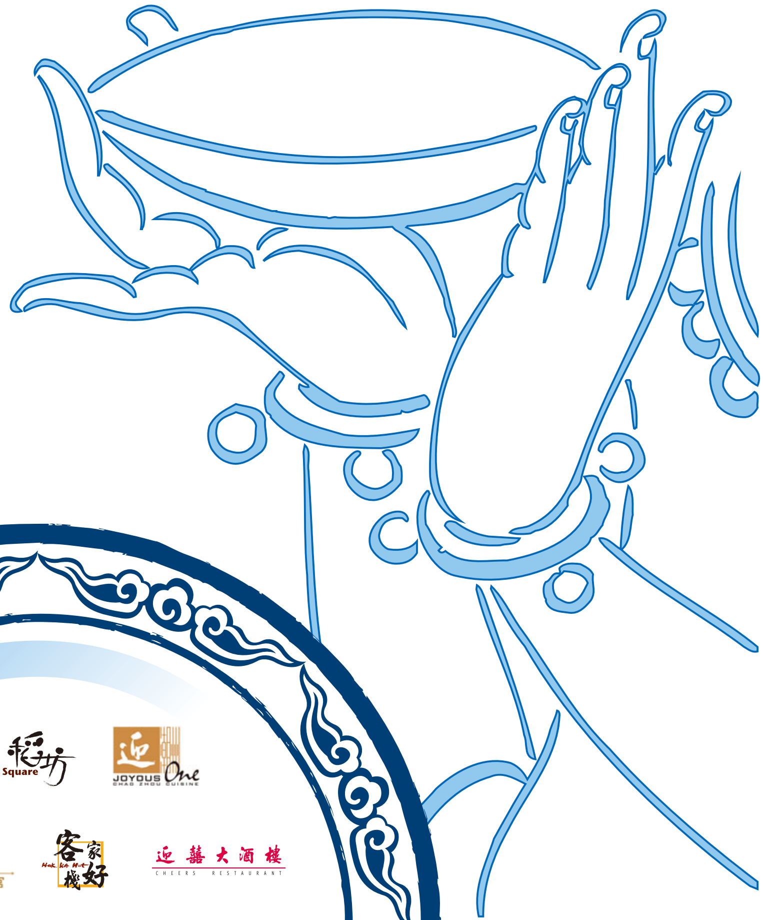
Appreciation

On behalf of the Board, I would like to offer my sincere gratitude to the management and staff for their diligence and dedication throughout the year. Appreciation must certainly be extended to our customers, business partners and shareholders for their unwavering support.

Chung Wai Ping
Chairman

Hong Kong
22 March 2012

Management Discussions and Analysis



Catering Network Expansion

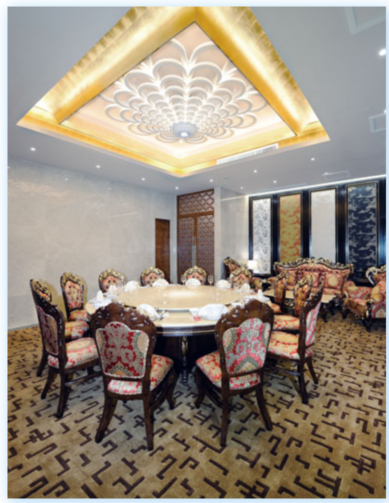
Target to have a network of up to 200 outlets offering different kinds of Chinese Cuisine and baked goods within the coming five years

Management Discussions and Analysis

Review

The Board is pleased to announce the Group's annual results for the year ended 31 December 2011. During the review year, the Group continued to face stern challenges characterised by rising costs in food, labour and rent. To mitigate their impact, the management implemented stringent cost control measures that bolstered efficiency leading to sustained profitability. Moreover, the introduction of promotional campaigns to celebrate Tao Heung's 20th anniversary not only helped raise public awareness of brands under the Group, but also maintained customer traffic, leading to further business gains. In Mainland China, conditions were more encouraging with consumption sentiment steadily improving, allowing Tao Heung to grow in a stable manner and realise double-digit turnover growth.

In the past year, the management has sought to continue building a fully integrated business. The operation of a poultry farm, running of two logistics centres in Tai Po and Dongguan and ongoing expansion of restaurant and bakery networks in Hong Kong and Mainland China are indicative of this effort. By adopting this holistic approach, the Group is now set to extend its reach to the northern and eastern reaches of Mainland China, which will be its main objective in the coming years.



Financial Results

The Group's total revenue increased by 21.8% to around HK$3,576.1 million (2010: HK$2,937.2 million). Factors that led to the increase included the opening of 10 new shops – seven in Hong Kong and three in Mainland China; strong business growth in China resulting from a booming economy and increased spending by consumers; and effective promotions in Hong Kong resulting in sustained customer traffic. Gross margin reached 15.6%. EBITDA increased by 16.3% to HK$527.8 million from HK$453.8 million in 2010. Profit attributable to owners of the parent was HK$255.0 million, up 16.2% from HK$219.4 million in 2010. To tackle rising labour and food costs and rent, stringent cost control measures were adopted such as greater bulk purchase of food ingredients, increased food supply from logistics centres, introduction of automated processes and the development of a vertically integrated supply chain that include the acquisition of a poultry farm in January 2011. These measures successfully kept staff cost-to-revenue ratio and rent-to-revenue ratio stable.

Hong Kong Operations

The Hong Kong market reported steady growth during the review year, with revenue of HK$2,710.2 million recorded, representing a year-on-year growth of 13.2%. Tao Heung expanded its restaurant network with seven new outlet openings. In total, 69 outlets are in operation as at 31 December 2011.

To welcome the 20th anniversary of Tao Heung, some themed marketing campaigns were introduced which proved successful in maintaining customer traffic. Same store sales increased modestly by 2.5%.

Despite a surge in various costs, especially labour cost following the introduction of minimum wage in May 2011, the Group's profitability was not materially impacted as evidenced by the staff cost to revenue ratio remaining at the same level as 2010. With the written off of the remaining balance of property, plant and equipment of old Fotan Logistics Centre approximately HK$6.6 million, EBITDA increased only slightly to HK$341.3 million. Profit attributable to owners of the parent was increased to HK$179.2 million.

Profitability was maintained, in part, the result of leveraging the Dongguan and Tai Po logistic centres which supplied more food to Hong Kong restaurants, thus allowing for greater cost savings. Centralised food processing also helped contain costs by way of directly sourcing from local farms that offer lower prices. With greater food supply to the Group's restaurants, expenditure for food was therefore reduced. It is also worth noting that the poultry farm acquired by the Group has enabled it to establish a vertically integrated network and thereby benefit from greater cost savings. The aforesaid farm successfully boosted the Group's gross profit and is expected to continue playing a significant role in curbing expenses.

Performance of the Tai Cheong Bakery operation was stable with a total store count of 17 as at 31 December 2011. Wanting to further strengthen sales channels, the Group will continue exploring suitable locations to open new outlets. Ready to support such openings will be the bakery centre found in the Tai Po Logistics Centre. In operation since January 2011, the bakery centre can provide more food to Tai Cheong and thus enable it to expand its business as well as benefit from greater efficiency and lower costs.

Mainland China Operations

Another year of exceptional growth was achieved by the Mainland China operations. The Group recorded revenue of HK$865.9 million, up by 59.2% over the same period last year (2010: HK$543.8 million). Even excluding revenue generated from the poultry farm, revenue still climbed by a staggering 46.3%. Such an outstanding achievement was driven by growing public affluence, which has led to an increase frequenting of reputable high-end restaurants. The management's decision to focus on the fast growing wedding and banquet markets can also be attributed to such growth. Concern towards food safety is an additional factor that has attracted middle to high income customers to Tao Heung. Further aiding revenue growth was the addition of three outlets that were opened in Huizhou and Shenzhen during the year, thus raising the total number of restaurants to 17 as at 31 December 2011. Same store sales growth of 13.9% provided yet another reason for the impressive surge in revenue.

Along with a jump in income, EBITDA increased by 56.7% to HK$186.5 million, up from HK$119.0 million in 2010. Profit attributable to owners of the parent climbed by 74.7% to HK$75.8 million. The rise in profitability can directly be attributed to the Dongguan Logistics Centre which was able to supply a greater volume of food, having benefited from enhanced efficiency. Consequently, this reduced the impact of escalating food cost on the Group. Certainly, the significant increase in revenue was also a contributing factor.

Logistics Centres

The logistics centre in Dongguan continued to supply an increasing amount of food to the Group's restaurants, with current output at approximately 840 tonnes per month. This prompted the Group to increase the bulk purchase of food raw materials from their sources, thus ensure greater control of food quality and higher efficiency. With the total breakeven point having already been met in 2010, the Dongguan Logistics Centre began delivering profits to the Group in the first half of 2011. As output from the Centre increases to a projected 1,000 tonnes per month in 2012, still greater profits can be expected, while also allowing Tao Heung to quicken its pace of expansion in Mainland China.

Having commenced operation in January 2011, the Tai Po Logistics Centre has been effectively generating synergies with its Dongguan counterpart, helping alleviate rising cost pressure. In the process of providing effective food supply for pre-packaged and festive products including dim sum and mooncakes, the Tai Po facility reached an average output of approximately 930 tonnes per month, and is targeted to reach 1,000 tonnes per month in 2012. Along with helping lessen cost pressure, the Centre enables the Group to explore more peripheral business opportunities, thus paving the way for future growth.

Peripheral Business

The peripheral business realised stable growth with revenue up 122.1% to approximately HK$198.8 million (2010: HK$89.5 million). With the acquisition of a poultry farm in January 2011, this newest asset has helped expedite the Group's vertical integration efforts, and create new income sources for the Group. In the past year, the farm delivered a stable and safe supply of high quality ingredients in the form of pork and poultry. At the same time, the farm contributed revenue totalling HK$70.2 million, thus an income source in its own right.

Particularly strong sales growth was achieved by the festive food business, with the "made in Hong Kong" mooncakes and pun choi being clear standouts. These high-quality items were produced via the centralised food processing centre in Tai Po. While airline catering, pre-packaged and chilled food have consistently generated steady revenue for the Group, the management will nevertheless continue exploring more avenues for distributing such food items.

Financial Resources and Liquidity

The Group maintained a strong financial and liquidity position during the year under review. As at 31 December 2011, the Group's total assets increased to approximately HK$1,950.9 million (2010: approximately HK$1,626.5 million) while the total equity increased to approximately HK$1,395.7 million (2010: approximately HK$1,231.2 million).

As at 31 December 2011, the Group had cash and cash equivalents of approximately HK$311.4 million. After deducting total interest-bearing bank borrowings of approximately HK$21.9 million, the Group had a net cash surplus position of approximately HK$289.5 million. In view of its cash-rich position, the Group continues to explore potential investments or business development opportunities to deploy its cash resources with an aim to enhance the Group's profitability and values to its shareholders.

As at 31 December 2011, the Group's gearing ratio (defined as total interest-bearing bank borrowings plus finance lease payable divided by total shareholders' equity) was 1.6% (2010: 0.9%).

Capital Expenditure

Capital expenditure for the year ended 31 December 2011 amounted to approximately HK$322.2 million and capital commitments as at 31 December 2011 amounted to approximately HK$76.4 million. The capital expenditure were mainly for the renovation of the Group's new and existing restaurants and Tai Po Logistics Centre while the capital commitments mainly relate to the acquisition of the leasehold building.

Contingent Liabilities

As at 31 December 2011, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$26.2 million (2010: approximately HK$28.1 million).

Foreign Exchange Risk Management

The Group's sales and purchases for the year ended 31 December 2011 were mostly denominated in Hong Kong Dollars ("**HK$**") and Renminbi ("**RMB**").

The RMB is not a freely convertible currency. Future exchange rates of the RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the RMB. The appreciation or devaluation of the RMB against HK$ may have impact on the operation results of the Group.

The Group currently does not have a foreign currency hedging policy. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Human Resources

As at 31 December 2011, the Group had 8,319 employees. In order to attract and retain high quality staff and to enable smooth operation within the Group, the Group offers competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis.

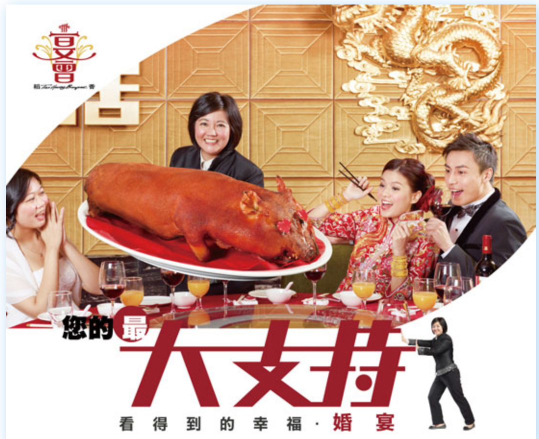
In addition, the Group also adopted the Pre-IPO Share Option Scheme and Share Option Scheme, where eligible employees are entitled to various share options to subscribe for the ordinary shares in the Company for their past and potential contribution to the growth of the Group. As at 31 December 2011, approximately 9,198,000 options were outstanding under the Pre-IPO Share Option Scheme and 1,152,000 share options have been exercised during the year. Also, as at 31 December 2011, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

Pledge of Assets

As at 31 December 2011, the Group pledged its bank deposits of approximately HK$11.9 million, leasehold land and buildings of approximately HK$56.3 million and investment properties of approximately HK$7.3 million to secure the banking facilities granted to the Group.

Prospects

Heading into 2012, the management remains cautiously optimistic about the restaurant industry. Though rising labour cost, inflation-related cost pressures in both Hong Kong and China, and even the Euro Debt Crisis which can destabilise the local economies and affect consumption sentiment are concerns that cannot be ignored, the Group has proven time and again its ability to overcome all obstacles. As a leading Chinese restaurant group targeting to reach a combined total of 100 outlets in Hong Kong and Mainland China in 2012, Tao Heung has the experience, cost control mechanisms in place and the determination to sustain growth even in the face of market adversity.



Aiding the Group's business efforts are the Dongguan and Tai Po logistics centres. Now that the latter has been operational since January 2011, it will also play an effective role in reducing costs. Almost immediately, the Tai Po Logistics Centre has allowed the Group to consolidate its prominent position in the restaurant industry while at the same time enable the management to explore more opportunities in peripheral businesses. Also, the Group will be able to benefit from the facility's high-level of automation, translating into greater efficiency in terms of food supply, as well as further raise the bar for food safety.

A further ally in delivering quality food while curbing expenses is the poultry farm in China. With enhanced capacity, the farm not only occupies an essential position in its vertical integration hierarchy but is also a profit contributor. Looking ahead, the management will leverage the facility to explore other vertical integration opportunities, thus broaden its revenue sources still further. Since food chain integration is a trend that is only now sweeping the food and beverage industry, possession of the poultry farm has enabled the Group to be in an advantageous position to readily capitalise on further integration efforts.

On a more micro perspective, the Group will continue to adopt technologies that raise the efficiency of its restaurants. The use of automated queueing, automated ordering, self-service auto-payment and pre-paid cards are among the measures that will be taken to help optimise the workforce and reduce the impact of rising labour cost and labour shortages.

With increasing awareness of food safety brought upon by the food incidents as DEHP plasticiser, among others, restaurant operators that place heavy emphasis on food quality are set to capitalise; hence, here too Tao Heung is ready to benefit. The Group will continue to place food hygiene and safety as among its top priorities, making best use of its laboratories in this regard. Such emphasis perfectly corresponds with the management's overall objective of tapping the enormous Mainland China market which, with a booming economy, has created an increasingly large and discerning middle-class segment – the Group's target consumers.

Consistent with the Group's goal of expediting business expansion in the Mainland China market, the management aims to open seven to eight restaurants in 2012, thus bringing the total count to around 25. With Hong Kong serving as the foundation and expansion in Guangdong well underway, the Group will place greater focus on tapping markets outside the Guangdong region. Already, five premises have been confirmed with locations that include Zhongshan, Guangzhou as well as locations in Guangxi. Besides these locations, the management is already looking with expansion in these regions likely to proceed this year at eastern and northern parts of the country, including Shanghai, Wuhan and Shenyang. Ultimately, the Group's aim is to provide exceptional dining experiences to a wider Mainland Chinese audience. More resources will therefore be dedicated to promotion and market development. Though profitability will not be immediate, such ventures are deemed essential for realising Tao Heung's mid- to long-term goals.

The operating environment in Hong Kong is expected to remain difficult as inflation will continue to burden restaurant operators grappling to sustain profits. Despite a less positive outlook for the local market, the management will place every effort into maintaining customer traffic and preserving the average selling price of dishes as it seeks to perpetuate growth. In addition, the Group will prudently expand its presence with the opening of five to six new restaurants in 2012. Along with a bolstered presence, the management plans to introduce automated queueing, ordering and self-service auto-payment systems in all outlets as a means of tackling labour and operating costs. Take-away counters will also be opened in popular restaurants in order to expand sales channels for pre-packaged food. In the coming first-half year, the take-away counters will be shelved with products that feature brand new packaging theme.

In respect of the Tai Cheong Bakery business, the Group aims to roll out more exciting products such as Western and Japanese breads and baked goods, as well as tap the tourist market with newly developed modern packaging and graphics. With the Group's self-branded mooncakes having enjoyed a warm reception by the market, the Tai Po Logistics Centre will also play a key role in expanding production whereas private branded mooncakes will be produced by the Dongguan Logistics Centre. This strategy is expected to result in enhanced competiveness for the Group's mooncake products.

Capitalising on a number of strengths, including effective cost controls, vertically integrated supply chain, seasoned management team, consolidated restaurant network and sterling brand reputation in Hong Kong and Mainland China, the management is confident in the Group's ability to forge ahead and capture greater market share, even in the face of lingering challenges. The management will duly harness this momentum to extend Tao Heung's reach to other regions of Mainland China as part of its long-term development strategy.

Directors and Senior Management

Executive Directors

Mr. Chung Wai Ping, aged 52, is an Executive Director and was appointed on 29 December 2005. Mr. Chung is the chairman of our Board and one of our founders. Mr. Chung is primarily responsible for overall corporate strategies, planning and business development. Mr. Chung established our Group in 1991 and has over 30 years of experience in the Chinese restaurant industry. Mr. Chung started his career as an apprentice cook of a local restaurant in Hong Kong from 1975 and became the Sous Chef of the Garden Hotel, Guangzhou, China in 1985. In 1991, Mr. Chung co-founded the first Tao Heung Seafood Hotpot Restaurant in Hong Kong. Mr. Chung is currently the Emeritus Honorary President of the Chinese Cuisine Management Association, the President of Association of Restaurant Managers and The Honorary Chairman of the China branch of Les Amis d'Escoffier Society Co. He is also the Executive Vice President of Chamber of Commerce of Guangzhou Foreign Investment Enterprises. Besides, Mr. Chung is a member of Guangzhou Committee of the Chinese People's Political Consultative Conference. Mr. Chung won the Chief Executive Officer of the year (Hospitality) in 2003 organized by the Asia Pacific Customer Service Consortium, the Top Ten Man of the Time in Catering Industry in Yue-Gang-Ao held by the China Hospitality Association and Innovative entrepreneur of the Year organized by the Junior Chamber International Hong Kong in 2005. In 2006, Mr. Chung won the Capital Leader of Excellence 2006 organized by the "Capital" Magazine. To recognise the contributions to promoting vocational education and training, Mr. Chung was awarded as VTC Honorary Fellowship in 2011. Mr. Chung is a cousin of Mr. Chung Ming Fat, who is an executive Director.

Mr. Wong Ka Wing, aged 54, is an Executive Director and was appointed on 1 March 2007. Mr. Wong is one of our founders. Mr. Wong is primarily responsible for the overall operation of our Dongguan Logistics Centre. Mr. Wong has over 20 years of experience in the Chinese restaurant industry. Mr. Wong obtained a diploma in production and industry engineering from Hong Kong Polytechnic University.

Mr. Chung Ming Fat, aged 57, is an Executive Director and was appointed on 29 December 2005. Mr. Chung is one of our founders. Mr. Chung is primarily responsible for our quality assurance and central procurement of our two logistics centres. Mr. Chung has over 30 years of experience in the Chinese restaurants industry. Mr. Chung is a cousin of Mr. Chung Wai Ping, who is the Chairman.

Mr. Leung Yiu Chun, aged 41, is an Executive Director and was appointed on 9 March 2007. Mr. Leung is our Chief Executive Officer and is primarily responsible for our business development and overall strategic planning in finance, accounting, administration and marketing. Mr. Leung joined us in October 2002 as director of finance and began his career in the Chinese restaurant industry. Prior to joining us, Mr. Leung had over 10 years experience in financial management and auditing for various Hong Kong listed companies, including Hop Hing Holdings Limited and Mirabell International Holdings Limited, the shares of both companies are listed on the Main Board of the Stock Exchange, and an international accounting firm. Mr. Leung holds a Master degree in Business Administration and a Bachelor degree of Arts (Honours) in Accountancy from the Hong Kong Polytechnic University. Mr. Leung is currently a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Ms. Wong Fun Ching, aged 49, is an Executive Director and was appointed on 1 March 2007. Ms. Wong is primarily responsible for the overall environment control and business development. Ms. Wong joined the Group in August 2005 as deputy director of logistics operation and began her career in the Chinese restaurant industry. Prior to joining us, Ms. Wong held management positions in various multinational corporations, including DEC and Motorola Inc. Ms. Wong holds a Bachelor degree (honours) of Business Administration in Business Information Systems from the Open University of Hong Kong and a Master degree of Science in Engineering Business Management from the Hong Kong Polytechnic University jointly with the University of Warwick, United Kingdom.

Mr. Ho Yuen Wah, aged 50, is an Executive Director and was appointed on 1 March 2007. Mr. Ho is the Chief Business Officer and is primarily responsible for management and development of restaurants chain and retail business of the Group. Mr. Ho joined the Group in December 1991 as restaurant manager and was promoted to be the director of business management department in 2003. Mr. Ho has over 25 years of experience in the Chinese restaurant industry.

Non-Executive Directors

Mr. Fong Siu Kwong, aged 54, is a Non-executive Director and was appointed on 1 March 2007. Besides, he was also appointed as a member of Remuneration Committee on 9 June 2007. Mr. Fong holds a Bachelor degree of Laws from University of Wolverhampton, a Postgraduate Certificate in Laws from The University of Hong Kong and a Master degree of Laws in Chinese and Comparative Law from the City University of Hong Kong. He was admitted as a solicitor in Hong Kong in 1996. Mr. Fong is currently a consultant solicitor in Howell & Co. solicitor. Mr. Fong has over 30 years of legal experience. Mr. Fong is also a Honourary legal adviser to the Hong Kong Chinese Civil Servants' Association and the Honourary legal adviser to HKU MACHS Alumni Association.

Mr. Chan Yue Kwong, Michael, aged 60, is a Non-executive Director and was appointed on 6 March 2007. Besides, he was also appointed as a member of Nomination Committee on 9 June 2007 and a member of Audit Committee on 15 October 2008. Mr. Chan is the Chairman of Café de Coral Holdings Limited, as well as an independent non-executive director of Starlite Holdings Limited, Kingboard Laminates Holdings Limited, Pacific Textiles Holdings Limited, and Tse Sui Luen Jewellery (International) Limited, all of which are listed on the Main Board of the Hong Kong Stock Exchange. Mr. Chan holds a double major degree in Sociology and Political Science, a Master degree in City Planning, an Honorary Doctorate degree in Business Administration, a Court member of the Hong Kong University of Science and Technology and is bestowed as Honorary Fellow from Lingnam University. He is also a member of the Political Consultative Committee of Nanshan District, Shenzhen in the People's Republic of China.

Mr. Chan has many years of professional experience in the public sector and over 25 years of managerial experience in the food and catering industry. He is currently an executive committee member of the Hong Kong Retail Management Association, the general committee of the Employers' Federation of Hong Kong, the Adviser of the Quality Tourism Services Association, the Honorary Chairman of the Hong Kong Institute of Marketing and the Chairman of the Business Enterprise Management Centre of the Hong Kong Management Association. Mr. Chan is also a Board Member of the Hong Kong Tourism Board and a member of the Business Facilitation Advisory Committee appointed by the Hong Kong Special Administrative Region.

Independent Non-Executive Directors

Mr. Li Tze Leung, SBS JP, aged 57, is an Independent Non-executive Director and was appointed on 1 March 2007. Besides, he was also appointed as a member of both Audit Committee and Remuneration Committee on 9 June 2007. Mr. Li has been serving the retail industry for more than 30 years and is currently the chairman of Broadway Photo Supply Ltd. He is a member of the National Committee of Chinese People's Political Consultative Conference, as well as the Hong Kong SAR Election Committee. Mr. Li is also the President of H.K. & Kowloon Electrical Appliances Merchants Association Ltd. and an Executive Committee Member of Hong Kong Retail Management Association.

Professor Chan Chi Fai, Andrew, JP, aged 58, is an Independent Non-executive Director and was appointed on 9 March 2007. Besides, he was also appointed as a member of both Audit Committee and Nomination Committee on 9 June 2007. Professor Chan holds a Master degree of Business Administration from the University of California, Berkeley, U.S., a Bachelor degree of Business Administration and a Doctorate degree of Philosophy from the Chinese University of Hong Kong (CUHK). Professor Chan is at present a professor in the Department of Marketing and the Director of the EMBA programmes in the CUHK. In addition to other appointments, Professor Chan is also currently the Chairman of the Process Review Committee, the Hong Kong Monetary Authority and a member of the Electoral Affairs Commission and Quality Tourism Services (QTS) Committee and an advisor of the Quality Tourism Services Association (QTSA). Professor Chan has approximately 30 years of experience in the education industry.

Mr. Mak Hing Keung, Thomas, aged 49, is an Independent Non-executive Director and was appointed on 1 March 2007. Besides, he was also appointed as a member of both Audit Committee and Remuneration Committee on 9 June 2007. Mr. Mak holds a Bachelor degree of Commerce from Queen's University, Canada. Mr. Mak is a member of the Canadian Institute of Chartered Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Mak is currently the Chief Financial Officer of South China Media Group. Prior to joining South China Media Group, Mr. Mak was the Chief Financial Officer of Redgate Media Group. Prior to Redgate Media Group, Mr, Mak was the Chief Financial Officer of Minmetals Resources Limited and RoadShow Holdings Limited respectively, both are listed on the Main Board. From 1997 to 2001, Mr. Mak worked for an investment bank and Listing Division of the Stock Exchange respectively. Mr. Mak has also worked for an international accounting firm in Hong Kong, Singapore and Canada for over seven years.

Mr. Ng Yat Cheung, JP, aged 56, is an Independent Non-executive Director and was appointed on 1 March 2007. Besides, he was also appointed as a member of Nomination Committee on 9 June 2007. Mr. Ng holds an Associate degree in Arts in Business Data Processing from Chabot College in the United States. He holds offices as a director with a number of private companies which are principally engaged in technology, property development, finance and property holding. Mr. Ng is also an independent non-executive director of China Agri-Products Exchange Limited and VST Holdings Limited, the shares of both companies are listed on the Main Board of the Stock Exchange. Besides, Mr. Ng was also appointed as an independent non-executive director of Pan Asia Mining Limited (previously known as "Intelli-Media Group (Holdings) Limited"), a company listed on the GEM of the Stock Exchange and he subsequently resigned on 1 March 2009.

Senior Management

Mr. Cheng Ho Yuen, aged 46, is the Chief Operation Officer and is primarily responsible for our overall restaurant operations and management including food production in the restaurants. Mr. Cheng joined the Group in November 1997 as restaurant manager and was promoted to director of human resources department in 2004 and subsequently transferred to the business development department. Mr. Cheng has over 20 years of experience in the Chinese restaurants industry.

Ms. Tsang Wing Ka, aged 37, is the director of finance and accounting department and is primarily responsible for our overall finance, accounting and taxation functions. Ms Tsang joined the Group in December 2002 as finance and accounting manager. Ms. Tsang has over 10 years of experience in financial management. Ms. Tsang holds a Master's degree of Business Administration from the Chinese University of Hong Kong, a Bachelor's degree in Commerce (Accounting) from Curtin University of Technology in Australia and is currently an associate member of the Hong Kong Institute of Certified Public Accountants.

Ms. Li Hiu Ming, aged 43, is the director of human resources department. She joined us in March 2002 as a manager of the human resources department. Ms. Li holds a master's degree of science in strategic human resources management from Hong Kong Baptist University and a bachelor's degree in business from Monash University. Ms. Li has over 16 years experience in human resources management in a Hong Kong listed company and other retail & information technology companies.

Corporate Governance Report

The Board is committed to maintaining high standard of corporate governance practices to safeguard the interests of the Company's shareholders and to enhance corporate value and accountability. These can be achieved by an effective Board, segregation of duties with clear accountability, sound internal control, appropriate risk assessment procedures and transparency to all the shareholders.

The Company has complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices the "CG Code") as set forth in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Riles") of the Stock Exchange throughout the year ended 31 December 2011.

Model Code for Securities

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set forth in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities by the Directors of the Company. Based on specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standards as set forth in the Model Code throughout the year under review.

Board of Directors

The Board is responsible for formulating overall strategic decision of the Company, setting objectives for the management, monitoring and controlling the performance of the management. The management of the Company implements the strategic decisions and deals with operational matters of the Group under the delegation and authority of the Board.

The Board has a balanced composition of Executive and Non-executive Directors to ensure independent viewpoints in all discussions. The Board currently comprises of twelve directors, including six Executive Directors, two Non-executive Directors and four Independent Non-executive Directors. Board members are listed below:

Executive Directors:
Mr. Chung Wai Ping *(Chairman)*
Mr. Wong Ka Wing
Mr. Chung Ming Fat
Mr. Leung Yiu Chun *(Chief Executive Officer)*
Ms. Wong Fun Ching
Mr. Ho Yuen Wah

Non-executive Directors:
Mr. Fong Siu Kwong
Mr. Chan Yue Kwong, Michael

Independent Non-executive Directors:
Mr. Li Tze Leung
Professor Chan Chi Fai, Andrew
Mr. Mak Hing Keung, Thomas
Mr. Ng Yat Cheung

Biographical information of the directors is set forth on pages 15 to 17 of this annual report.

Each of the Executive Directors of the Company entered into a service contract with the Company for an initial term of three years commencing from the Listing Date and may only be terminated in accordance with the provisions of the service contract after the first two years by either party giving to the other not less than three months' prior notice in writing.

The Company has renewed the service contract of each of the Non-executive Directors and Independent Non-executive Directors for a term of two years commencing from 29 June 2010 unless terminated by either party giving to other not less than three months' prior notice in writing.

One-third of the Board is made up of Independent Non-executive Directors, one of whom has appropriate professional qualifications, or accounting or related financial management expertise, as required by the Listing Rules.

Each of the Independent Non-executive Directors has given an annual confirmation of independent to the Company pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guideline set forth in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The Chairman and Chief Executive Officer

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be not be performed by the same individual. To ensure a balance of power and authority, the Company appoints Mr. Chung Wai Ping as Chairman and Mr. Leung Yiu Chun as Chief Executive Officer.

Board Meetings

The Board met regularly in person or by means of electronic communication. The Board is going to meet as least four times a year after the Listing. Regular board meetings are usually scheduled at the beginning of the year to give all directors adequate time to plan their schedules to attend. Directors receive at least 14 days' prior written notice of regular board meetings and an agenda. The Board paper, including supporting analyses and relevant background information, are normally sent to all Directors at least three days before the Board meeting. For other Board meetings, Directors are given as much notice as possible in the circumstances.

The company secretary of the Company is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

Details of Directors' attendance at Board meetings and Board committees meetings are set forth in the following table:

Meetings attended during the year ended 31 December 2011

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held during the year	4	2	1	1
Executive Directors:				
Mr. Chung Wai Ping *(Chairman)*	4/4	N/A	N/A	N/A
Mr. Wong Ka Wing	4/4	N/A	N/A	N/A
Mr. Chung Ming Fat	4/4	N/A	N/A	N/A
Mr. Leung Yiu Chun *(Chief Executive Officer)*	4/4	N/A	N/A	N/A
Ms. Wong Fun Ching	4/4	N/A	N/A	N/A
Mr. Ho Yuen Wah	4/4	N/A	N/A	N/A
Non-executive Directors:				
Mr. Fong Siu Kwong	4/4	N/A	1/1	N/A
Mr. Chan Yue Kwong, Michael	4/4	2/2	N/A	1/1
Independent Non-executive Directors:				
Mr. Li Tze Leung	4/4	1/2	1/1	N/A
Professor Chan Chi Fai, Andrew	4/4	2/2	N/A	1/1
Mr. Mak Hing Keung, Thomas	4/4	2/2	1/1	N/A
Mr. Ng Yat Cheung	4/4	N/A	N/A	1/1
Average attendance rate	100.0%	87.5%	100.0%	100.0%

Board Committees

To facilitate the work of the Board, Board committees have been set up with written terms of reference which clearly define the role, authority and functions of each committee. Each Board committee is required to report their decisions or recommendations to the Board. Details of Directors' attendances at the Board committee meetings are shown on above.

The composition, role and function and summary of work done of each Board committee are set forth below:

Audit Committee

Composition

The Company established the Audit Committee on 9 June 2007 with written terms of reference in compliance with the Code on Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee include the review and supervision of the financial reporting processes, the internal control systems and licensing issues of the Group. Currently, Mr. Mak Hing Keung, Thomas, Mr. Li Tze Leung and Professor Chan Chi Fai, Andrew, all being Independent Non-executive Directors, and Mr. Chan Yue Kwong, Michael, a Non-executive Director are members of the Audit Committee with Mr. Mak Hing Keung, Thomas, being the chairman.

Role and Function
The primary duties of the Audit Committee include reviewing the financial statements of the Company, reviewing the Company's financial reporting process, internal control and risk management system and review of the remuneration and terms of engagement of external auditors.

Summary of Work Done
The following is a summary of the work performed by the Audit Committee during the year ended 31 December 2011:

1. Review external auditors' management letter and management response;

2. Review the interim and annual reports before submission to the Board for approval; and

3. Review the progress and effectiveness of the Group's internal control and risk management.

Nomination Committee

Composition
The Company established the Nomination Committee on 9 June 2007 with written terms of reference in compliance with the Code on Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The Nomination Committee has three members comprising Professor Chan Chi Fai, Andrew, Mr. Ng Yat Cheung, being Independent Non-executive Directors and Mr. Chan Yue Kwong, Michael, a Non-executive Director. The chairman of the Nomination Committee is Professor Chan Chi Fai, Andrew.

Role and Function
The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment of Directors and the management of the Board succession.

Summary of Work Done
During the year ended 31 December 2011, the Nomination Committee has reviewed and made recommendation on the re-election of the directors to be proposed for shareholders' approval at the annual general meeting on 24 May 2012.

Remuneration Committee

Composition
The Company established the Remuneration Committee on 9 June 2007 with written terms of reference in compliance with the Code on Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The Remuneration Committee has three members comprising Mr. Li Tze Leung, Mr. Fong Siu Kwong and Mr. Mak Hing Keung, Thomas, two of whom are Independent Non-executive Directors. The Remuneration Committee is chaired by Mr. Li Tze Leung.

Role and Function
The primary duties of the Remuneration Committee include making recommendations to the Board on the policy and structure of the company for all remuneration of Directors and on the establishment of a formal and transparent procedure for developing policy on such remuneration, determining the specific remuneration package of all Executive Directors, including without limitation – base salaries, share options and benefits in kind, incentive payments and making recommendations to the Board on the remuneration of Non-executive Directors and Independent Non-executive Directors.

Summary of Work Done
During the year ended 31 December 2011, the Remuneration Committee has reviewed the current salaries and benefits (including discretionary bonus and incentive scheme) of all Executive Directors and fees of all Non-executive Directors and Independent Non-executive Directors.

Directors' Responsibility for the Financial Statements

The Directors understands and acknowledges its responsibility for making sure that the financial statements for each financial year are prepared to reflect the true and fair view of the state of affairs, results and cash flow of the Group and in compliance with relevant law and disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2011, the Directors have selected appropriate accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis. The Directors also ensure that the financial statements of the Group are published in a timely manner.

External Auditors

The Group appointed Ernst & Young as the Group's principal auditors. The acknowledgement of their responsibilities on the financial statements is set forth the Independent Auditors' Report on page 31 to 32 of this annual report.

The remuneration paid to Ernst & Young, and its affiliated firms, for services rendered in respect of the year ended 31 December 2011 is as follows:

	2011	2010
	HK$'000	HK$'000
Audit fee		
– provision for the year	**3,100**	2,770
Non-audit service fees	**117**	470
Total	**3,217**	3,240

Fees for non-audit services comprise of taxation advisory fee and agreed upon procedures.

Internal Controls

The Board is responsible for maintaining an adequate internal control system to safeguard shareholders' interests and reviewing the effectiveness of such on an annual basis through the audit committee. The Board with the assistance of the internal audit department is conducting an annual review and assessment of the effectiveness of the risk management and internal control system of the Group. Such review covered all material controls, including financial, operational and compliance controls and risk management functions.

The Board would communicate regularly with the audit committee and the external consultant.

Investors Relations

To enhance transparency and effectively communicate with the investment community, the executive directors and senior management of the Company actively maintains close communications with various institutional investors, financial analysts and financial media by convening road shows and investors' conferences during the year. Investors are welcome to share their views with the Board by writing to the Company at its Hong Kong head office or sending enquiries to the Company's web site at www.taoheung.com.hk. Investors and shareholders are welcome to review the Company's recent announcements at the Company's web site at www.taoheung.com.hk.

Report of the Directors

The Board is pleased to present their annual report together with the audited consolidated financial statements of the Company and the Group for the year ended 31 December 2011.

Principal Activities

The principal activity of the Company is investment holding. The Group is principally involved in the restaurant and bakery operations, provision of food catering services, production, sale and distribution of food products and operating items related to restaurant operations. The activities of the principal subsidiaries are set forth on in note 18 to the financial statements.

Results and Dividends

The results of the Group for the year ended 31 December 2011 and state of affairs of the Company and the Group as at that date are set forth in financial statements on pages 33 to 102.

An interim dividend of HK6.20 cents per ordinary share, totaling approximately HK$63,067,000 were paid on 7 October 2011. The directors recommended the payment of a final dividend of HK$6.60 cents per ordinary share, totaling approximately HK$67,141,000 in respect of the year to shareholders on the register of members on 31 May 2012. The proposed final dividend for the year ended 31 December 2011 has been approved at the Company's board meeting on 22 March 2012. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position. Details of dividends for the year ended 31 December 2011 are set forth in note 12 to the financial statements.

Closure of Register of Members

The register of members of the Company will be closed during the following periods:

(i) from Monday, 21 May 2012 to Thursday 24 May 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlements to attend and vote at the 2011 Annual General Meeting. In order to be eligible to attend and vote at the 2011 Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 18 May 2012; and

(ii) From Friday, 1 June 2012 to Tuesday 5 June 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlements to the proposed final dividend. In order to establish the entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 31 May 2012;

During the periods mentioned in sub-paragraphs (i) and (ii) above, no transfer of shares will be registered.

Summary Financial Information

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five years, as extracted from the consolidated financial statements and restated as appropriate, is set forth on pages page 104 of this Annual Report. This summary does not form part of the audited financial statements.

Property, Plant and Equipment and Investment Properties

Details of the movements in property, plant and equipment and investment properties of the Group during the year are set forth in notes 14 and 16 to the financial statements, respectively. Further details of the Group's investment properties are set out on page 103.

Share Capital and Share Options

Details of the movements in share capital and share options of the Company are set forth in notes 33 and 34 to the financial statements.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's 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.

Purchase, Redemption or Sale of the Listed Securities of the Company

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

Share Option Schemes

(a) Pre-IPO Share Option Scheme

Pursuant to the Pre-IPO Share Option Scheme on 9 June 2007, the Company has granted 15,190,000 options to eligible directors, senior management and employees of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated under the Pre-IPO Share Option Scheme. The exercise price shall be 50% of the final offer price to the public. The Pre-IPO Share Option Scheme will remain in force for a period of 10 years from the grant date. 150,000 options were cancelled upon the termination of employment during the year under review.

During the year, 1,152,000 options granted under the Pre-IPO Share Option Scheme have been exercised. Share options granted under the Pre-IPO Share Option Scheme are exercisable at HK$1.59 per share and the holders of the said share options may exercise the share options during the period from 29 June 2009 to 28 June 2012, both days inclusive.

Details of the share options outstanding as at 31 December 2011 which have been granted under the Pre-IPO Share Option Scheme are as follows:

		Number of options					
Name	**Date of grant**	**Options outstanding at 1 January 2011**	**Granted during the year**	**Options exercised during the year**	**Options lapsed on expiry**	**Options cancelled upon termination of employment**	**Options outstanding at 31 December 2011**
Executive Directors							
Mr. Leung Yiu Chun	9 June 2007	560,000	–	(240,000)	–	–	320,000
Ms. Wong Fun Ching	9 June 2007	560,000	–	–	–	–	560,000
Other employees	9 June 2007	9,380,000	–	(912,000)	–	(150,000)	8,318,000
		10,500,000	–	(1,152,000)	–	(150,000)	9,198,000

(b) Share Option Scheme

Pursuant to a share option scheme adopted by the Company on 9 June 2007 (the "Share Option Scheme"), the Directors of the Company may invite participants to take up options at a price determined by the Board of Directors but in any event shall not be less than the higher of (i) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant which must be a business day; (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares. The option may be exercised in accordance with the terms of the Share Option Scheme at any time during the option period which may be determined and notified by the Board to the grantee at the time of making an offer which shall not expire later than 10 years from the grant date. As at the date of this report, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set forth in note 35(b) to the financial statements and in the consolidated statement of change in equity, respectively.

Distributable Reserves

At 31 December 2011, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised of the Cayman Islands, amounted to HK$819,309,000 of which HK$67,141,000 has been proposed as a final dividend for the year. The amount of HK$747,998,000 included the Company's share premium account and other reserves which may be distributable provided that immediately following the date on which the dividend's proposed to be distributed, the Company will be in a position to pay off debts as and when they fall due in the ordinary course of business.

Donations

Charitable donations made by the Group during the year amounted to HK$53,000.

Major Customers and Suppliers

For the year ended 31 December 2011, the percentage of sales attributable to the Group's five largest customers was less than 30% while the five largest suppliers and the single largest supplier of the Group accounted for approximately 36.4% and 16.0% of the purchase of the Group, respectively.

At no time during the year have the directors, their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

Directors

The directors of the Company as at the date of this report were as follows:

Executive Directors:

Mr. Chung Wai Ping *(Chairman)*
Mr. Wong Ka Wing
Mr. Chung Ming Fat
Mr. Leung Yiu Chun *(Chief Executive Officer)*
Ms. Wong Fun Ching
Mr. Ho Yuen Wah

Non-executive Directors:

Mr. Fong Siu Kwong
Mr. Chan Yue Kwong, Michael

Independent Non-executive Directors:

Mr. Li Tze Leung
Professor Chan Chi Fai, Andrew
Mr. Mak Hing Keung, Thomas
Mr. Ng Yat Cheung

Pursuant to article 87(1) of the Company's articles of association, the following Executive Directors namely Ms.Wong Fun Ching and Mr. Ho Yuen Wah, the following Non-executive Director namely Mr. Fong Siu Kwong and the following Independent Non-executive Director, namely Li Tze Leung will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from each of the Independent Non-executive Directors and still considers them to be independent.

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set forth on pages 15 to 17.

Directors' Service Contracts

Each of the Executive Directors of the Company entered into a service contract with the Company for an initial term of three years commencing from the Listing Date and may only be terminated in accordance with the provisions of the service contract after the first two years by either party giving to the other not less than three months' prior notice in writing. The Executive Directors will also be entitled to a discretionary bonus provided that the total amount of bonus together with the total salary and benefits to be paid to all Executive Directors in each year ending 31 December shall not exceed three percent of the audited consolidated net profit after tax but before extraordinary items of the Group for the relevant year (and before deducting such discretionary bonus and benefits).

Save as disclosed above, none of directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Remuneration

The directors' fees are subject to shareholders' approval at general meeting. Other emoluments are determined by the Board with reference to directors' duties, responsibilities and performance and the results of the Group.

A summary of the directors' remuneration is set forth in note 8 to the financial statements.

Directors' Interests in Contract

Saved as disclosed under the section headed "Continuing Connected Transaction" on page 30 of the Annual Report, no contract of significance on which the Company or any of its subsidiaries was a party, and in which a director had a material interest, subsisted at the end of the year or at any time during the year.

Directors' Interests in Competing Business

None of the directors of the Company is interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group during the year or at 31 December 2011.

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2011, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") were as follows:

		Number of ordinary shares (long position)					
Name of Directors	Notes	**Personal interests**	**Family interests**	**Corporate interests**	**Equity derivatives**	**Total interests**	**% of total issued shares**
Executive Directors							
Mr. Chung Wai Ping	(a), (d)	–	12,174,222	376,900,689	–	389,074,911	38.25
Mr. Wong Ka Wing	(b)	5,522,679	–	103,283,124	–	108,805,803	10.70
Mr. Chung Ming Fat	(c)	–	–	56,795,068	–	56,795,068	5.58
Mr. Leung Yiu Chun	(e)	480,000	–	–	320,000	800,000	0.08
Ms. Wong Fun Ching	(e)	240,000	–	–	560,000	800,000	0.08
Mr. Ho Yuen Wah		2,000,000	–	–	–	2,000,000	0.20
Non-executive Director							
Mr. Fong Siu Kwong		180,000	–	–	–	180,000	0.02

Notes:

(a) 376,900,689 shares were held by Billion Era International Limited, which is wholly-owned by Mr. Chung Wai Ping.

(b) Of these shares, 5,522,679 shares were held by Mr. Wong Ka Wing personally and 103,283,124 shares were held by Joy Mount Investments Limited, which is wholly-owned by Mr. Wong Ka Wing.

(c) These shares were held by Whole Gain Holdings Limited, which is wholly-owned by Mr. Chung Ming Fat.

(d) 12,174,222 shares were held by Ms. Chan Sai Ying, spouse of Mr. Chung Wai Ping.

(e) These represented outstanding options granted to Directors under the Pre-IPO Share Option Scheme to subscribe for shares of the Company, further details of which are set forth under the section headed "Share Option Schemes" to this report.

Saved as disclosed above, as at 31 December 2011, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who have the interest or short position in the shares, underlying shares of the equity derivatives of the Company which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2011, the interests and short positions of every persons, other than Directors or chief executive of the Company, in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register kept by the Company under Section 336 of the SFO were as follows:

		Number of ordinary shares (long position)	
Name of Shareholder	Notes	**Directly beneficially owned**	**% of total issued shares**
Billion Era International Limited	(a)	376,900,689	37.05
Joy Mount Investments Limited	(b)	103,283,124	10.15
Perfect Plan International Limited	(c)	102,053,976	10.03
Value Partners Limited	(d)	81,847,000	8.05
Whole Gain Holdings Limited	(e)	56,795,068	5.58

Notes:

(a) These shares were wholly-owned by Billion Era International Limited, which is beneficially owned by Mr. Chung Wai Ping.

(b) These shares were wholly-owned by Joy Mount Investments Limited, which is beneficially owned by Mr. Wong Ka Wing.

(c) These shares were wholly-owned by Perfect Plan International Limited, which is an indirect wholly owned subsidiary of Café de Coral Holdings Limited whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

(d) These shares were wholly-owned by Value Partners Limited, which is a wholly-owned subsidiary of Value Partners Group Limited whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

(e) These shares were wholly-owned by Whole Gain Holdings Limited, which is beneficially owned by Mr. Chung Ming Fat.

Save as disclosed above, as at 31 December 2011, the Directors are not aware of any other person (other than the Directors or chief executive of the Company) who have the interests or short positions in the shares, underlying shares of equity derivatives of the Company which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the "Directors' Interests and Short Positions in Shares and Underlying Shares" above and in the share option scheme disclosed in note 34 to the financial statements, at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors or the spouse or children under 18 years of age to acquired benefits by means of the acquisition of shares in, or debentures of the Company, or any other body corporate.

Continuing Connected Transaction

During the year, the sales of food and other operating items to Skybest International Investment Enterprise Limited ("Skybest"), a non wholly-owned subsidiary of the Company with 20% interest indirectly held by Café de Coral Holdings Limited, amounted to approximately HK$960,000. On 31 January 2011, the Group acquired an additional 20% of the issued shares of Skybest at a purchase consideration of HK$1,534,000. Since then, Skybest became a wholly-owned subsidiary of the Group and the sale of food and other operating items to Skybest did not constitute a connected transaction.

Save as disclosed above, the Group leases a warehouse from Ms. Chan Sai Ying, spouse of Mr. Chung Wai Ping. Under the arrangements, the Group is required to pay Ms. Chan Sai Ying a monthly rent of HK$4,000 based on normal commercial term or on terms no less favourable to the Group than terms available for independent third parties.

All these transactions are exempt from the reporting, announcement or independent shareholders' approval requirements under Rule 14A.3 of the Listing Rules are included herein for information only.

Sufficiency of Public Float

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

Event after the Reporting Period

Details of the significant event after the reporting period of the Group are set out in note 46 to the financial statements.

Auditors

Ernst and 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

Chung Wai Ping
Chairman

Hong Kong
22 March 2012

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of Tao Heung Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tao Heung Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 33 to 102, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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.

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 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
22 March 2012

Consolidated Income Statement

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
REVENUE	5	**3,576,099**	2,937,226
Cost of sales		**(3,016,631)**	(2,491,576)
Gross profit		**559,468**	445,650
Other income and gains, net	5	**33,395**	18,602
Selling and distribution costs		**(92,781)**	(67,557)
Administrative expenses		**(169,088)**	(117,957)
Other expenses		**(8,682)**	(914)
Finance costs	6	**(461)**	(495)
PROFIT BEFORE TAX	7	**321,851**	277,329
Income tax expense	10	**(63,094)**	(55,590)
PROFIT FOR THE YEAR		**258,757**	221,739
Attributable to:			
Owners of the parent	11	**254,956**	219,386
Non-controlling interests		**3,801**	2,353
		258,757	221,739
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic (HK cents)	13	**25.08**	21.59
– Diluted (HK cents)	13	**24.98**	21.49

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
PROFIT FOR THE YEAR		**258,757**	221,739
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**21,191**	7,063
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**279,948**	228,802
Attributable to:			
Owners of the parent	11	**275,795**	226,449
Non-controlling interests		**4,153**	2,353
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**279,948**	228,802

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,031,228**	854,017
Prepaid land lease payments	15	**19,354**	18,855
Investment properties	16	**8,540**	7,620
Goodwill	17	**38,239**	22,020
Investments in associates	19	**3,316**	3,316
Biological assets	20	**2,803**	–
Deferred tax assets	21	**62,934**	63,220
Rental deposits		**94,278**	75,750
Deposits for purchases of items of property, plant and equipment		**38,148**	12,362
Other deposit		**1,648**	4,442
Total non-current assets		**1,300,488**	1,061,602
CURRENT ASSETS			
Inventories	22	**134,833**	61,967
Biological assets	20	**9,269**	–
Trade receivables	23	**25,720**	13,528
Prepayments, deposits and other receivables	24	**82,306**	61,222
Tax recoverable		**3,823**	11,398
Pledged deposits	25	**11,914**	31,200
Restricted cash	26	**71,057**	–
Cash and cash equivalents	25	**311,445**	382,655
		650,367	561,970
Asset classified as held for sale	27	**–**	2,884
Total current assets		**650,367**	564,854
CURRENT LIABILITIES			
Trade payables	28	**179,271**	136,177
Other payables and accruals	29	**299,171**	215,919
Interest-bearing bank borrowings	30	**21,868**	11,273
Finance lease payables	31	**323**	200
Due to a non-controlling shareholder of subsidiaries	32	**60**	946
Tax payable		**26,764**	21,384
Total current liabilities		**527,457**	385,899
NET CURRENT ASSETS		**122,910**	178,955
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,423,398**	1,240,557

Consolidated Statement of Financial Position (continued)

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT LIABILITIES			
Finance lease payables	31	**621**	197
Due to non-controlling shareholders of subsidiaries	32	**11,391**	–
Deferred tax liabilities	21	**15,654**	9,114
Total non-current liabilities		**27,666**	9,311
Net assets		**1,395,732**	1,231,246
EQUITY			
Equity attributable to owners of the parent			
Issued capital	33	**101,729**	101,614
Reserves	35(a)	**1,209,633**	1,062,717
Proposed dividend	12	**67,141**	64,017
		1,378,503	1,228,348
Non-controlling interests		**17,229**	2,898
Total equity		**1,395,732**	1,231,246

Chung Wai Ping
Director

Leung Yiu Chun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

		Attributable to owners of the parent											
	Notes	Issued capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 (note 35 (a))	Other reserve HK$'000 (note 35 (a))	Share option reserve HK$'000	Capital redemption reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010		101,614	316,526	110,748	21,136	16,739	9	31,300	464,361	64,017	1,126,450	1,671	1,128,121
Profit for the year		–	–	–	–	–	–	–	219,386	–	219,386	2,353	221,739
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		–	–	–	–	–	–	7,063	–	–	7,063	–	7,063
Total comprehensive income for the year		–	–	–	–	–	–	7,063	219,386	–	226,449	2,353	228,802
Equity-settled share option arrangements	34	–	–	–	–	2,467	–	–	–	–	2,467	–	2,467
Dividend paid to a non-controlling shareholder of subsidiaries		–	–	–	–	–	–	–	–	–	–	(1,126)	(1,126)
Final 2009 dividend declared		–	–	–	–	–	–	–	–	(64,017)	(64,017)	–	(64,017)
Interim 2010 dividend	12	–	–	–	–	–	–	–	(63,001)	–	(63,001)	–	(63,001)
Proposed final 2010 dividend	12	–	–	–	–	–	–	–	(64,017)	64,017	–	–	–
At 31 December 2010		101,614	316,526	110,748	21,136	19,206	9	38,363	556,729	64,017	1,228,348	2,898	1,231,246

Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2011

	Notes	Issued capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 (note 35 (a))	Other reserve HK$'000 (note 35 (a))	Share option reserve HK$'000	Capital redemption reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
		Attributable to owners of the parent											
At 1 January 2011		101,614	316,526	110,748	21,136	19,206	9	38,363	556,729	64,017	1,228,348	2,898	1,231,246
Profit for the year		-	-	-	-	-	-	-	254,956	-	254,956	3,801	258,757
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		-	-	-	-	-	-	20,839	-	-	20,839	352	21,191
Total comprehensive income for the year		-	-	-	-	-	-	20,839	254,956	-	275,795	4,153	279,948
Equity-settled share option arrangements	34	-	-	-	-	1,019	-	-	-	-	1,019	-	1,019
Issue of shares	33	115	3,945	-	-	(2,228)	-	-	-	-	1,832	-	1,832
Acquisition of subsidiaries	36	-	-	-	-	-	-	-	-	-	-	12,394	12,394
Acquisition of non-controlling interests	37	-	-	-	(1,358)	-	-	-	-	-	(1,358)	(176)	(1,534)
Transfer of share option reserve upon the forfeiture or expiry of share options	34	-	-	-	-	(277)	-	-	277	-	-	-	-
Dividend paid to a non-controlling shareholder of subsidiaries		-	-	-	-	-	-	-	-	-	-	(2,040)	(2,040)
Final 2010 dividend declared	12	-	-	-	-	-	-	-	(49)	(64,017)	(64,066)	-	(64,066)
Interim 2011 dividend	12	-	-	-	-	-	-	-	(63,067)	-	(63,067)	-	(63,067)
Proposed final 2011 dividend	12	-	-	-	-	-	-	-	(67,141)	67,141	-	-	-
At 31 December 2011		101,729	320,471*	110,748*	19,778*	17,720*	9*	59,202*	681,705*	67,141	1,378,503	17,229	1,395,732

* These reserve accounts comprise the consolidated reserves of HK$1,209,633,000 (2010: HK$1,062,717,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**321,851**	277,329
Adjustments for:			
Interest income	5	**(3,808)**	(2,556)
Fair value gains on investment properties	5	**(920)**	(7,884)
Finance costs	6	**461**	495
Loss/(gain) on disposal of items of property, plant and equipment, net	7	**(8,450)**	525
Write-off of items of property, plant and equipment	7	**7,842**	914
Change in fair value less cost to sell of biological assets	7	**840**	–
Recognition of prepaid land lease payments	7	**363**	348
Depreciation of property, plant and equipment	7	**206,920**	175,671
Equity-settled share option expense	7	**1,019**	2,467
		526,118	447,309
Increase in rental deposits		**(18,067)**	(14,177)
Decrease in pledged deposits		**19,286**	5,556
Increase in inventories		**(67,884)**	(19,437)
Decrease in biological assets		**3,069**	–
Decrease/(increase) in trade receivables		**(337)**	800
Increase in prepayments, deposits and other receivables		**(14,115)**	(6,925)
Increase in trade payables		**31,477**	41,142
Increase in other payables and accruals		**28,102**	48,072
Cash generated from operations		**507,649**	502,340
Interest paid		**(458)**	(430)
Hong Kong profits tax paid		**(27,065)**	(51,292)
Overseas taxes paid		**(19,091)**	(11,812)
Net cash flows from operating activities		**461,035**	438,806
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(284,100)**	(267,612)
Deposits paid for purchases of items of property, plant and equipment		**(38,148)**	(12,362)
Additions to investment properties		**–**	(91,546)
Acquisition of subsidiaries	36	**(38,392)**	–
Loan to an associate		**–**	(2,062)
Increase in restricted cash		**(71,057)**	–
Proceeds from redemption of financial assets at fair value through profit or loss		**–**	38,885
Proceeds from disposal of items of property, plant and equipment		**11,334**	277
Interest received		**3,808**	2,556
Decrease/(increase) in non-pledged deposits with original maturity over three months when acquired		**50,000**	(50,000)
Decrease/(increase) in other deposit		**2,794**	(4,442)
Net cash flows used in investing activities		**(363,761)**	(386,306)

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	33	**1,832**	–
New bank loans		**52,000**	–
Repayment of bank loans		**(41,405)**	(16,926)
Capital element of finance lease payments		**(172)**	280
Interest element of finance lease payments		**(3)**	(13)
Dividends paid		**(127,133)**	(127,018)
Dividends paid to a non-controlling shareholder of subsidiaries		**(2,040)**	(1,126)
Decrease in an amount due to a non-controlling shareholder of subsidiaries		**(886)**	(1,375)
Interest expense on a loan from a non-controlling shareholder of subsidiaries		**–**	(52)
Net cash flows used in financing activities		**(117,807)**	(146,230)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(20,533)**	(93,730)
Cash and cash equivalents at beginning of year		**332,655**	427,535
Effect of foreign exchange rate changes, net		**(677)**	(1,150)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**311,445**	332,655
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**311,445**	312,655
Non-pledged time deposits with original maturity of less than three months when acquired		**–**	70,000
Cash and cash equivalents as stated in the consolidated statement of financial position		**311,445**	382,655
Non-pledged time deposits with original maturity of over three months when acquired		**–**	(50,000)
		311,445	332,655

Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	**448,681**	448,073
CURRENT ASSETS			
Prepayments	24	**286**	1,177
Due from a subsidiary	18	**490,414**	482,453
Cash and cash equivalents	25	**412**	2,141
Total current assets		**491,112**	485,771
CURRENT LIABILITIES			
Other payables and accruals	29	**1,035**	738
NET CURRENT ASSETS		**490,077**	485,033
Net assets		**938,758**	933,106
EQUITY			
Issued capital	33	**101,729**	101,614
Reserves	35(b)	**769,888**	767,475
Proposed final dividend	12	**67,141**	64,017
Total equity		**938,758**	933,106

Chung Wai Ping
Director

Leung Yiu Chun
Director

Notes to Financial Statements

31 December 2011

1. Corporate Information

Tao Heung Holdings Limited was incorporated in the Cayman Islands on 29 December 2005 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1–1111, Cayman Islands and its principal place of business in Hong Kong is located at No. 18 Dai Fat Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 29 June 2007.

During the year, the Group was involved in the following principal activities:

- restaurant operations and provision of food catering services
- bakery operations
- production, sale and distribution of food products related to restaurant operations
- poultry farm operations

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 (the "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 investment properties and biological assets, which have been measured at fair value. The asset held for sale was stated at the lower of its carrying amount and fair value less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 that 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 difference recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any 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, as appropriate.

2.2 Changes in Accounting Policy and Disclosures

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

2.2 Changes in Accounting Policy and Disclosures (continued)

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

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

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 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, but is not yet in a position to state whether these new and revised HKFRSs would 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 that are not classified as held for sale in accordance with HKFRS 5 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 subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

Business combinations and goodwill

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 it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event 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 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.

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interest 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.

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. The Group performs its annual impairment test of goodwill as at 31 December. 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, or groups of 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 or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) 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 forms part of a cash-generating unit (group of cash-generating units) 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 of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of 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 inventories, deferred tax assets, financial assets, investment properties, goodwill and an asset held for sale), 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 in those expense categories consistent with the function of the impaired asset.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is any 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 other than goodwill 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.

Related parties

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

(a) the party is a person of 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 (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale".

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

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.

Depreciation is calculated on the straight-line basis to write off the cost 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 under finance leases	Over the lease terms
Buildings	Over the shorter of the lease term and 2% – 5%
Leasehold improvements	10% – $33^1/_3$%
Furniture, fixtures and equipment	20% – $33^1/_3$%
Motor vehicles	20% – 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost 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 and 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.

Construction in progress represents buildings, plant and machinery and other fixed assets under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of purchase, construction, installation and capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use.

2.4 Summary of Significant Accounting Policies (continued)

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the assets must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sales must be highly probable.

Non-current assets classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment classified as held for sale are not depreciated or amortised.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, included prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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.

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.

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 finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

2.4 Summary of Significant Accounting Policies (continued)

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.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any 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 flow 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.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of 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.

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 future write-off is later recovered, the recovery is credited to the income statement.

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 plus, in the case of loans and borrowings, directly attributable transaction costs.

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, and only 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.

Biological assets

Biological assets are living animals and are measured on initial recognition and at the financial year end at their fair value less costs to sell. The fair value of biological assets is determined by reference to the market prices in active market or at cost less any accumulated impairment losses when the fair value cannot be measured reliably. A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in the income statement for the period in which it arises.

2.4 Summary of Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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 statement 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.

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 goodwill or 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 taxable temporary differences associated with investments in subsidiaries and associates, 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.

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any 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, and 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 associates, 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 the 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.

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 over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

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:

(a) from restaurant operations, when catering services have been provided to customers;

(b) from the sale of food, when the products are sold to customers and 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 food sold;

(c) from poultry farm operation, when the livestock or the slaughter chicken are sold to customers and the significant risks and rewards of ownership have been transferred to the buyer provided that the Group maintains neither management involvement to the degree usually associated with ownership, nor effective control over the stock sold;

2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition (continued)

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

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial assets; and

(f) sponsorship income, when there is reasonable assurance that the sponsorship income will be received and all attaching conditions will be complied with. Where the sponsorship income relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Share-based payment transactions

The Company operates share option schemes 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 payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants 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 model.

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 payment transaction, 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 when 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.

2.4 Summary of Significant Accounting Policies (continued)

Other employee benefits

Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's 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 certain employee social security plans (the "Plans"), including pension and other welfare benefit plans, administered by the government authorities. These subsidiaries are required to contribute a certain percentage of their payroll costs to the Plans. The contributions are charged to the income statement as they become payable in accordance with the rules of the Plans.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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 their respective functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to 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 retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on 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 the Company's overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Company at the exchange rates ruling 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.

2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies (continued)

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries 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 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 the disclosure of contingent liabilities, at the end of the reporting period. However, 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:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Impairment of assets

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (a) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (b) 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 or derecognition; and (c) the appropriate key assumptions to be applied in preparing cash flow projections including whether these 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 the cash flow projections could materially affect the net present value used in the impairment test.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty

The key assumptions 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 items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial 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, expected 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 the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at the end of each reporting period based on changes in circumstances.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Estimation of fair value of investment properties

The fair value of each investment property is individually determined at the end of each reporting period by independent valuers according to a market value assessment, on an open market existing use basis. The valuers have relied on the discounted cash flow analysis which is based upon estimates of future results and a set of assumptions specific to each property to reflect its tenancy and cash flow profile. The discounted cash flow projections of each investment property are based on reliable estimates of expected future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence, and using discount rates that reflect current market assessments of the uncertainty in the amounts and timing of the cash flows.

Estimation of fair value less cost to sell of biological assets

The fair value less cost to sell of biological assets is determined at the end of each reporting period by independent valuers by reference to the market prices in active market or at cost less any accumulated impairment losses when the fair value cannot be measured reliably. The valuer has made reference to the market-determined prices, cultivation area, species, growing conditions and cost incurred.

Impairment allowances on loans and receivables

The Group regularly reviews its receivables to assess impairment. In determining whether a receivable or a group of receivables is impaired and impairment losses are incurred, the Group considers, inter alia, whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from its receivables. This requires the Group to make estimates about expected future cash flows, and hence they are subject to uncertainty.

Deferred tax assets

Deferred tax assets are recognised for all 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.

4. Operating Segment Information

The Group is principally engaged in the provision of food catering services through a chain of restaurants. Information reported to the Group's chief operating decision maker (i.e. the chief executive officer) for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

The following tables present revenue from external customers for the years ended 31 December 2011 and 2010, and certain non-current asset information as at 31 December 2011 and 2010, by geographic area.

(a) Revenue from external customers

	2011 HK$'000	2010 HK$'000
Hong Kong	**2,710,238**	2,393,463
Mainland China	**865,861**	543,763
	3,576,099	2,937,226

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

(b) Non-current assets

	2011 HK$'000	2010 HK$'000
Hong Kong	**541,220**	499,986
Mainland China	**600,408**	422,646
	1,141,628	922,632

The non-current asset information above is based on the location of assets and excludes certain financial assets and deferred tax assets.

5. Revenue, Other Income and Gains, Net

Revenue, which is also the Group's turnover, represents gross revenue from restaurant, bakery and poultry farm operations, net of relevant business tax and allowances for trade discounts.

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

	Group	
	2011	2010
	HK$'000	HK$'000
Revenue		
Restaurant and bakery operations	**3,377,255**	2,847,734
Sale of food	**128,658**	89,492
Poultry farm operations	**70,186**	–
	3,576,099	2,937,226
Other income and gains, net		
Bank interest income	**3,808**	2,556
Fair value gains on investment properties	**920**	7,884
Gain on disposal of items of property, plant and equipment, net	**8,450**	–
Government grants	**903**	–
Gross rental income from investment properties	**466**	1,172
Gross rental income from sublease of poultry market	**9,780**	–
Sponsorship income	**5,505**	5,025
Others	**3,563**	1,965
	33,395	18,602

6. Finance Costs

	Group	
	2011	2010
	HK$'000	HK$'000
Interest on bank loans wholly repayable		
– Within five years	**444**	414
– Beyond five years	**14**	16
Interest on finance leases	**3**	13
Interest on an amount due to a non-controlling shareholder of a subsidiary	**–**	52
Total interest expense on financial liabilities not at fair value through profit or loss	**461**	495

7. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	**2011 HK$'000**	2010 HK$'000
Cost of inventories sold		**1,207,231**	954,548
Depreciation*	14	**206,920**	175,671
Amortisation of land lease payments*	15	**363**	348
Gross rental income from investment properties	5	**(466)**	(1,172)
Less: Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**–**	211
Net rental income		**(466)**	(961)
Employee benefit expenses* (including directors' remuneration (note 8)):			
Salaries and bonuses		**919,720**	769,808
Retirement benefit scheme contributions (defined contribution schemes)		**49,443**	37,633
Equity-settled share option expense	34	**1,019**	2,467
		970,182	809,908
Lease payments under operating leases in respect of land and buildings*:			
Minimum lease payments		**245,272**	207,241
Contingent rents		**14,338**	10,210
		259,610	217,451
Auditors' remuneration		**3,574**	3,211
Change in fair value less cost to sell of biological assets	20	**840**	–
Foreign exchange differences, net		**(4,271)**	(1,970)
Loss/(gain) on disposal of items of property, plant and equipment, net		**(8,450)**	525
Write-off of items of property, plant and equipment		**7,842**	914

* The cost of sales for the year amounting to HK$3,016,631,000 (2010: HK$2,491,576,000) included depreciation charges of HK$188,914,000 (2010: HK$168,391,000), amortisation of land lease payments of HK$363,000 (2010: HK$348,000), employee benefit expenses of HK$875,182,000 (2010: HK$744,498,000) and operating lease rentals of HK$251,539,000 (2010: HK$214,866,000).

8. Directors' Remuneration

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

	Group	
	2011	2010
	HK$'000	HK$'000
Fees	**936**	900
Other emoluments:		
Salaries	**3,338**	3,258
Discretionary bonuses	**564**	522
Equity-settled share option expense	**134**	442
Retirement benefit scheme contributions (defined contribution schemes)	**68**	68
	5,040	5,190

In the prior years, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company, further details of which are set out in note 34 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

8. Directors' Remuneration (continued)

2011	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expense HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive directors:						
Mr. Chung Wai Ping	–	156	24	–	8	188
Mr. Wong Ka Wing	–	544	93	–	12	649
Mr. Chung Ming Fat	–	453	77	–	12	542
Mr. Leung Yiu Chun	–	989	164	67	12	1,232
Ms. Wong Fun Ching	–	549	92	67	12	720
Mr. Ho Yuen Wah	–	647	114	–	12	773
	–	3,338	564	134	68	4,104
Non-executive directors:						
Mr. Fong Siu Kwong	156	–	–	–	–	156
Mr. Chan Yue Kwong, Michael	156	–	–	–	–	156
	312	–	–	–	–	312
Independent non-executive directors:						
Mr. Li Tze Leung	156	–	–	–	–	156
Professor Chan Chi Fai, Andrew	156	–	–	–	–	156
Mr. Mak Hing Keung, Thomas	156	–	–	–	–	156
Mr. Ng Yat Cheung	156	–	–	–	–	156
	624	–	–	–	–	624
	936	3,338	564	134	68	5,040

8. Directors' Remuneration (continued)

2010	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expense HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive directors:						
Mr. Chung Wai Ping	–	138	20	–	8	166
Mr. Wong Ka Wing	–	544	90	–	12	646
Mr. Chung Ming Fat	–	453	74	–	12	539
Mr. Leung Yiu Chun	–	960	158	221	12	1,351
Ms. Wong Fun Ching	–	540	89	221	12	862
Mr. Ho Yuen Wah	–	623	91	–	12	726
	–	3,258	522	442	68	4,290
Non-executive directors:						
Mr. Fong Siu Kwong	150	–	–	–	–	150
Mr. Chan Yue Kwong, Michael	150	–	–	–	–	150
	300	–	–	–	–	300
Independent non-executive directors:						
Mr. Li Tze Leung	150	–	–	–	–	150
Professor Chan Chi Fai, Andrew	150	–	–	–	–	150
Mr. Mak Hing Keung, Thomas	150	–	–	–	–	150
Mr. Ng Yat Cheung	150	–	–	–	–	150
	600	–	–	–	–	600
	900	3,258	522	442	68	5,190

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

9. Five Highest Paid Employees

The five highest paid employees, during the year included two (2010: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2010: three) non-director, highest paid employees for the year are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Salaries	**1,897**	1,836
Discretionary bonuses	**309**	200
Equity-settled share option expense	**80**	194
Retirement benefit scheme contributions (defined contribution schemes)	**36**	36
	2,322	2,266

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2011	2010
Nil to HK$1,000,000	**3**	3

In the prior years, share options were granted to non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 34 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

10. Income Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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.

	Group	
	2011	2010
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**40,127**	36,258
Overprovision in prior years	**(36)**	(19)
Current – Mainland China	**18,741**	16,474
Deferred (note 21)	**4,262**	2,877
Total tax charge for the year	**63,094**	55,590

Pursuant to the PRC Corporate Income Tax Law and its interpretation rules, the assessable income generated from qualifying agricultural business are eligible for certain tax benefits, including full PRC Corporate Income Tax exemption. Certain PRC subsidiaries of the Group engaged in qualifying agricultural business are entitled to exemption of PRC Corporate Income Tax.

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the Group's effective tax rate, is as follows:

	Group			
	2011		2010	
	HK$'000	%	HK$'000	%
Profit before tax	**321,851**		277,329	
Tax at the Hong Kong statutory tax rate	**53,105**	**16.5**	45,759	16.5
Difference in tax rates applied for specific provinces in Mainland China	**10,993**		5,583	
Effect of deemed income tax arising from China	**453**		–	
Adjustments in respect of current tax of previous years	**(36)**		(19)	
Income not subject to tax	**(6,061)**		(1,747)	
Expenses not deductible for tax	**3,313**		4,740	
Tax losses not recognised	**1,275**		1,248	
Others	**52**		26	
Tax charge at the Group's effective rate	**63,094**	**19.6**	55,590	20.0

31 December 2011

11. Profit Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a loss of approximately HK$6,712,000 excluding the dividend income from its subsidiaries of HK$136,923,000 (2010: HK$7,304,000 excluding the dividend income from its subsidiaries of HK$134,590,000) which has been dealt with in the financial statements of the Company (note 35(b)).

12. Dividends

	Group	
	2011	2010
	HK$'000	HK$'000
Additional 2010 final – HK6.30 cents	**49**	–
Interim – HK6.20 cents (2010: HK6.20 cents) per ordinary share	**63,067**	63,001
Proposed final – HK6.60 cents (2010: HK6.30 cents) per ordinary share	**67,141**	64,017
	130,257	127,018

Actual 2010 final dividend paid was HK$64,066,000, of which HK$49,000 was paid in respect of shares issued for employee share options exercised after 31 December 2010 and whose names appeared on the Company's register of members on 20 May 2011.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,016,762,628 (2010: 1,016,141,000) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of share under the Pre-IPO Share Option Scheme.

The calculations of basic and diluted earnings per share are based on:

	2011	2010
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**254,956**	219,386

	Number of shares	
	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,016,762,628**	1,016,141,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**3,852,226**	4,525,364
	1,020,614,854	1,020,666,364

14. Property, Plant and Equipment

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2011						
Cost:						
At 1 January 2011	314,995	670,838	385,337	14,452	190,044	1,575,666
Additions	1,204	150,745	107,316	3,830	35,579	298,674
Acquisition of a subsidiary (note 36)	28,211	35,342	8,551	474	1,654	74,232
Transfers	99,000	62,616	32,187	–	(193,803)	–
Disposals	–	–	(138)	(1,005)	–	(1,143)
Write-off	(297)	(31,391)	(6,016)	(155)	–	(37,859)
Exchange realignment	6,634	14,325	8,320	195	76	29,550
At 31 December 2011	449,747	902,475	535,557	17,791	33,550	1,939,120
Accumulated depreciation:						
At 1 January 2011	98,257	392,085	220,890	10,417	–	721,649
Provided during the year	10,132	120,789	73,757	2,242	–	206,920
Disposals	–	–	(138)	(1,005)	–	(1,143)
Write-off	–	(24,393)	(5,469)	(155)	–	(30,017)
Exchange realignment	774	5,888	3,719	102	–	10,483
At 31 December 2011	109,163	494,369	292,759	11,601	–	907,892
Net book value:						
At 31 December 2011	340,584	408,106	242,798	6,190	33,550	1,031,228

14. Property, Plant and Equipment (continued)

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2010						
Cost:						
At 1 January 2010	314,131	565,726	324,368	12,363	–	1,216,588
Additions	1,286	114,705	66,680	2,224	91,044	275,939
Transfer from investment properties (note 16)	–	–	–	–	99,000	99,000
Disposals	–	(3,073)	(1,255)	(220)	–	(4,548)
Write-off	–	(12,500)	(8,225)	–	–	(20,725)
Reclassified to asset held for sale (note 27)	(3,483)	–	–	–	–	(3,483)
Exchange realignment	3,061	5,980	3,769	85	–	12,895
At 31 December 2010	314,995	670,838	385,337	14,452	190,044	1,575,666
Accumulated depreciation:						
At 1 January 2010	92,863	296,182	168,109	8,540	–	565,694
Provided during the year	5,645	108,093	60,035	1,898	–	175,671
Disposals	–	(2,583)	(1,101)	(62)	–	(3,746)
Write-off	–	(12,131)	(7,680)	–	–	(19,811)
Reclassified to asset held for sale (note 27)	(599)	–	–	–	–	(599)
Exchange realignment	348	2,524	1,527	41	–	4,440
At 31 December 2010	98,257	392,085	220,890	10,417	–	721,649
Net book value:						
At 31 December 2010	216,738	278,753	164,447	4,035	190,044	854,017

14. Property, Plant and Equipment (continued)

The Group's lands included in property, plant and equipment with a net carrying amount of HK$82,589,000 (2010: HK$67,955,000) are situated in Hong Kong and are held under the following lease terms:

	2011 HK$'000	2010 HK$'000
– Long term leases	**26,461**	26,492
– Medium term leases	**56,128**	41,463
	82,589	67,955

At 31 December 2011, the net carrying amounts of the Group's property, plant and equipment held under finance leases included in the total amount of furniture, fixtures and equipment amounted to HK$947,000 (2010: HK$525,000).

As at 31 December 2011, the leasehold land and buildings with a net carrying amount of approximately HK$56,323,000 (2010: HK$78,664,000) situated in Hong Kong were pledged to secure the banking facilities granted to the Group (note 30).

15. Prepaid Land Lease Payments

	Group	
	2011 HK$'000	2010 HK$'000
Carrying amount at 1 January	**19,208**	19,038
Recognised during the year	**(363)**	(348)
Exchange realignment	**878**	518
Carrying amount at 31 December	**19,723**	19,208
Current portion included in prepayments, deposits and other receivables (note 24)	**(369)**	(353)
Non-current portion	**19,354**	18,855

The leasehold lands are situated in Mainland China and are held under medium term leases.

16. Investment Properties

	Group 2011 HK$'000	2010 HK$'000
Carrying amount at 1 January	**7,620**	7,190
Additions	**–**	91,546
Net gain from a fair value adjustment	**920**	7,884
Transfer to construction in progress (note 14)	**–**	(99,000)
Carrying amount at 31 December	**8,540**	7,620

The Group's investment properties are situated in Hong Kong and are held under the following lease terms:

	2011 HK$'000	2010 HK$'000
Long term leases	**6,600**	6,000
Medium term leases	**1,940**	1,620
	8,540	7,620

The Group's investment properties were revalued on 31 December 2011 by DTZ Debenham Tie Leung Limited, independent professionally qualified valuer, at HK$8,540,000 on an open market, existing use basis. The investment properties were leased to third parties under operating lease arrangements, further details of which are included in note 40(a) to the financial statements.

At 31 December 2011, the Group's investment properties with a total carrying amount of HK$7,340,000 (2010: HK$6,520,000) were pledged to secure the banking facilities granted to the Group (note 30).

17. Goodwill

	Group 2011 HK$'000	2010 HK$'000
Cost at 1 January	**22,020**	22,020
Acquisition of subsidiaries (note 36)	**15,504**	–
Exchange realignment	**715**	–
Cost and net carrying amount at 31 December	**38,239**	22,020

17. Goodwill (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units (the "Cash-generating Units") for impairment testing:

- Restaurant operations
- Bakery operations
- Property investment
- Poultry farm operations

The carrying amounts of goodwill allocated to each of the Cash-generating Units are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Restaurant operations	**16,766**	16,766
Bakery operations	**5,193**	5,193
Property investment	**61**	61
Poultry farm operations	**16,219**	–
	38,239	22,020

The recoverable amounts of the Cash-generating Units have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 5% (2010: 5%), and cash flows beyond the five-year period are extrapolated using an average growth rate of 2% (2010: 2%).

Key assumptions were used in the value in use calculation of the Cash-generating Units for the years ended 31 December 2011 and 2010. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant units.

18. Investments in Subsidiaries

	Company 2011 HK$'000	Company 2010 HK$'000
Unlisted shares, at cost	**428,382**	428,382
Capital contribution in respect of employee share-based compensation	**20,299**	19,691
	448,681	448,073

The amount due from a subsidiary included in the Company's current assets of approximately HK$490,414,000 (2010: HK$482,453,000) is unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2011	Percentage of equity attributable to the Company 2010	Principal activities
Directly held:					
Sky Cheer Group Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	**100%**	100%	Investment holding
Indirectly held:					
Best Harvest Food Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Production, sale and distribution of products related to restaurant operations
Elite Sky International Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Great Sky International Enterprise Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Castle Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Fine International Industrial Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding

18. Investments in Subsidiaries (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2011	2010	Principal activities
Sky Great Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Hero Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Leader Industrial Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Triumph International Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Well International Investment Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Skyford Enterprises Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Skyland Investment Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Property investment
Skymart Limited	Hong Kong	Ordinary HK$10,000	**100%**	100%	Investment holding
Skywell Enterprise Limited	Hong Kong	Ordinary HK$500,000	**100%**	100%	Restaurant operations and provision of food catering services
Starway International Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services

18. Investments in Subsidiaries (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2011	2010	Principal activities
Tao Heung Seafood Hotpot Restaurant Limited	Hong Kong	Ordinary HK$38,000	**100%**	100%	Provision of management and promotion services, trading of food and other operating items to restaurant operations and property investment
Tensel Investment Limited	Hong Kong	Ordinary HK$1,000,000	**100%**	100%	Investment holding
Top Eagle Development Limited	Hong Kong	Ordinary HK$40,000	**100%**	100%	Property investment
Triumph Sky Holdings Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Earth Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Skyera International Holdings Limited	Hong Kong	Ordinary HK$10,000	**100%**	100%	Property investment
Tao Heung Management Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Property investment
Tao Heung Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Provision of human resources support
東莞萬好食品有限公司* @	People's Republic of China ("PRC")/ Mainland China	HK$214,100,000	**100%**	100%	Production, sale and distribution of food products
深圳領鮮稻香飲食有限公司*@	PRC/ Mainland China	HK$32,000,000	**100%**	100%	Restaurant operations and provision of food catering services
Basic Tech Limited	Hong Kong	Ordinary HK$28,000	**100%**	100%	Property investment

18. Investments in Subsidiaries (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2011	2010	Principal activities
Huge Sky Investments Limited	Hong Kong	Ordinary HK$291,000	**100%**	100%	Property investment
Jetfat Investments Limited	Hong Kong	Ordinary HK$291,000	**100%**	100%	Restaurant operations and provision of food catering services
Nature Lion Limited	Hong Kong	Ordinary HK$250,000	**100%**	100%	Investment holding, property investment and sale and distribution of food products and operating items related to restaurant operations
Poly Sky Investment Limited	Hong Kong	Ordinary HK$48,000	**100%**	100%	Restaurant operations and provision of food catering services
Skyking Restaurant Limited	Hong Kong	Ordinary HK$71,000	**100%**	100%	Investment holding
Tin Shing Company Limited	Hong Kong	Ordinary HK$67,500	**100%**	100%	Restaurant operations and provision of food catering services
Miracle Time Enterprise Limited	Hong Kong	Ordinary HK$1,000,000	**80%**	80%	Restaurant operations and provision of food catering services
Skybest International Investment Enterprise Limited	Hong Kong	Ordinary HK$10,000	**100%**	80%	Restaurant operations and provision of food catering services
Glory Rainbow International Trading Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding, restaurant operations and provision of food catering services
Loyal Sky Holdings Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding, restaurant operations and provision of food catering services

18. Investments in Subsidiaries (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2011	2010	Principal activities
Sky Rich (China) Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
Skymark Asia Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
深圳友誼稻香海鮮火鍋酒家**@	PRC/ Mainland China	HK$7,000,000	**100%**	100%	Restaurant operations and provision of food catering services
迎海漁港飲食(深圳)有限公司*@	PRC/ Mainland China	HK$3,000,000	**100%**	100%	Restaurant operations and provision of food catering services
廣州市新港稻香海鮮火鍋酒家有限公司*@	PRC/ Mainland China	HK$8,250,000	**100%**	100%	Restaurant operations and provision of food catering services
廣州市僑光稻香海鮮火鍋酒家有限公司*@	PRC/ Mainland China	HK$8,250,000	**100%**	100%	Restaurant operations and provision of food catering services
Hongyet Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
Sky Trend Holdings Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
東莞地王稻香飲食有限公司*@	PRC/ Mainland China	HK$30,264,000	**100%**	100%	Restaurant operations and provision of food catering services
東莞天景稻香有限公司*@	PRC/ Mainland China	HK$36,000,000	**100%**	100%	Restaurant operations and provision of food catering services
Sky Ascent Development Limited	Hong Kong	Ordinary HK$1	**100%**	100%	Restaurant operations and provision of food catering services

18. Investments in Subsidiaries (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2011	2010	Principal activities
Tai Cheong Holdings Group Limited	British Virgin Islands	Ordinary US$10,000	**80%**	80%	Investment holding
Tai Cheong Bakery Company Limited	Hong Kong	Ordinary HK$300,000	**80%**	80%	Production and retail of bakery products
Tai Cheong (TM) Co., Limited	Hong Kong	Ordinary HK$10,000	**80%**	80%	Provision of promotion services
廣州天暉稻香飲食有限公司*@	PRC/ Mainland China	HK$18,000,000	**100%**	100%	Restaurant operations and provision of food catering services
廣州市百興畜牧飼料有限公司**@ Guangzhou Baixing Pasturage and Feed Co., Ltd.	PRC/ Mainland China	Ordinary RMB3,000,000	**70%**	–	Production and sale of livestock
廣州市榮利家禽有限公司**@ Guangzhou Rongli Poultry Co., Ltd.	PRC/ Mainland China	Ordinary RMB500,000	**70%**	–	Slaughtering and processing of livestock
廣州益生種禽有限公司**@ Guangzhou Yisheng Poultry Co., Ltd.	PRC/ Mainland China	Ordinary RMB4,000,000	**70%**	–	Production and sale of livestock

@ Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

* These companies are wholly-foreign-owned enterprises established in the PRC.

** These companies are Sino-foreign co-operative joint ventures established in the PRC.

During the year, the Group acquired a 70% equity interest in Guangzhou Baixing Pasturage and Feed Co., Ltd. ("Baixing"), Guangzhou Rongli Poultry Co., Ltd. ("Rongli") and Guangzhou Yisheng Poultry Co., Ltd. ("Yisheng"). Further details of the acquisition are included in note 36 to the financial statements.

During the year, the Group acquired an additional 20% equity interest in Skybest International Investment Enterprise Limited ("Skybest"), and Skybest became a 100% owned subsidiary of the Group thereafter. Further details of the transaction are included in note 37 to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of 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.

19. Investments in Associates

	Group 2011 HK$'000	Group 2010 HK$'000
Share of net assets	**1,284**	1,284
Goodwill on acquisition	**122**	122
	1,406	1,406
Loan to an associate	**2,062**	2,062
Provision for impairment	**(152)**	(152)
	3,316	3,316

The loan to an associate is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the associates are as follows:

Company name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group 2011	2010	Principal activities
Tin Park Limited	Ordinary shares of HK$1 each	Hong Kong	**39%**	39%	Dormant
World Wider International Limited	Ordinary shares of HK$1 each	Hong Kong	**39%**	39%	Dormant
Baker Limited@	Ordinary shares of HK$1 each	Hong Kong	**40%**	40%	Investment holding

@ Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The above associates were indirectly held by the Company.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2011 HK$'000	2010 HK$'000
Assets	**16,191**	8,794
Liabilities	**(13,074)**	(5,572)
Losses	**(105)**	(111)

20. Biological Assets

Movements of the biological assets are summarised as follows:

	Immature chicken breeders HK$'000	Mature chicken breeders HK$'000	Broilers HK$'000	Pig breeders HK$'000	Pig commodities HK$'000	Total HK$'000
Acquisition of subsidiaries (note 36)	603	1,855	3,974	3,038	5,383	14,853
Increase due to purchases	459	–	55,218	–	–	55,677
Additional costs incurred	5,259	7,560	28,919	4,660	10,483	56,881
Decrease due to retirement and deaths	(147)	(305)	(70)	–	(736)	(1,258)
Decrease due to sales	(162)	(3,704)	(85,106)	(478)	(16,540)	(105,990)
Transfers	(4,474)	4,465	9	(4,556)	4,556	–
Transfer to inventories	–	(8,379)	–	–	–	(8,379)
Change in fair value less costs to sell	–	–	(199)	–	(641)	(840)
Exchange realignment	28	85	362	139	514	1,128
At 31 December 2011	1,566	1,577	3,107	2,803	3,019	12,072

The numbers of biological assets at the end of the reporting period are summarised as follows:

Immature chicken breeders	42,044
Mature chicken breeders	22,412
Broilers	187,466
Pig breeders	1,210
Pig commodities	4,044
At 31 December 2011	257,176

Analysed for reporting purposes as:

	2011 HK$'000
Current assets	9,269
Non-current assets	2,803
At the end of the reporting period	12,072

The immature chicken breeders and mature chicken breeders are primarily held for further growth for the production of broilers and are classified as current assets. The immature chicken breeders are primarily bred for further growth into mature chicken breeders. The pig breeders are primarily held to produce agricultural produce. Pig breeders are classified as non-current assets.

In accordance with the valuation report issued by Marsh (Hong Kong) Limited, an independent professionally qualified valuer, the fair value less costs to sell is determined with reference to the market-determined prices, cultivation area, species, growing conditions and cost incurred.

21. Deferred Tax

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

Deferred tax assets

Group

	Depreciation in excess of related depreciation allowance HK$'000	Losses available for offsetting against future taxable profits HK$'000	Total HK$'000
At 1 January 2010	31,431	27,047	58,478
Deferred tax credited to the income statement during the year (note 10)	2,197	2,466	4,663
Exchange differences	162	404	566
Gross deferred tax assets at 31 December 2010 and 1 January 2011	33,790	29,917	63,707
Deferred tax credited/(charged) to the income statement during the year (note 10)	4,400	(5,355)	(955)
Exchange differences	280	450	730
Gross deferred tax assets at 31 December 2011	38,470	25,012	63,482

Deferred tax liabilities

	Revaluation of investment properties HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Total HK$'000
At 1 January 2010	9	2,052	2,061
Deferred tax charged to the income statement during the year (note 10)	61	7,479	7,540
Gross deferred tax liabilities at 31 December 2010 and 1 January 2011	70	9,531	9,601
Deferred tax charged to the income statement during the year (note 10)	–	3,307	3,307
Acquisition of subsidiaries (note 36)	–	3,110	3,110
Exchange differences	–	184	184
Gross deferred tax liabilities at 31 December 2011	70	16,132	16,202

21. Deferred Tax (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2011 HK$'000	2010 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**62,934**	63,220
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(15,654)**	(9,114)
	47,280	54,106

The Group has estimated tax losses arising in Hong Kong of approximately HK$60,304,000 (2010: HK$52,576,000) that are available indefinitely for offsetting against future taxable profits of those companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses 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.

At 31 December 2011, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$15,250,000 (2010: HK$11,323,000) at 31 December 2011.

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

22. Inventories

	Group	
	2011	2010
	HK$'000	HK$'000
Food and beverages, and other operating items for restaurant and bakery operations	**122,505**	61,967
Frozen poultry farm products	**4,430**	–
Raw materials for the production of animal feeds	**7,898**	–
	134,833	61,967

23. Trade Receivables

The Group's trading terms with its customers are mainly on cash and credit card settlement. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large 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 trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the payment due date and that are not considered to be impaired, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Neither past due nor impaired	**13,778**	9,345
Less than 1 month past due	**7,525**	2,545
1 to 3 months past due	**3,682**	780
Over 3 months past due	**735**	858
	25,720	13,528

Receivables that were neither past due nor impaired relate mainly to credit card receivables from banks 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 a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for 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.

24. Prepayments, Deposits and Other Receivables

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**34,629**	28,599	**286**	1,177
Prepaid land lease payments (note 15)	**369**	353	**–**	–
Deposits and other receivables	**47,308**	32,270	**–**	–
	82,306	61,222	**286**	1,177

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

25. Cash and Cash Equivalents and Pledged Time Deposits

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**311,445**	312,655	**412**	2,141
Time deposits	**11,914**	101,200	**–**	–
	323,359	413,855	**412**	2,141
Less:				
Pledged deposits with original maturity over 3 months but within 1 year for short term bank borrowings	**(11,914)**	(31,200)	**–**	–
	311,445	382,655	**412**	2,141
Less:				
Non-pledged deposits with original maturity over 3 months but within 1 year	**–**	(50,000)	**–**	–
	311,445	332,655	**412**	2,141

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$127,864,000 (2010: HK$197,080,000). The 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 three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

26. Restricted Cash

At 31 December 2011, the Group had approximately HK$71,057,000 of cash which was restricted as to use for the purpose of purchasing a building situated in Dongguan, further details of which are disclosed in note 46 to the financial statements. All of the restricted cash denominated in RMB is expected to be released within one year from 31 December 2011 and is accordingly classified as a current asset.

27. Asset Classified as Held for Sale

On 9 November 2010, the Group entered into a provisional agreement with an independent third party to dispose of certain of its leasehold land and building of HK$2,884,000 as at 31 December 2010 situated in Hong Kong for a consideration of HK$11,000,000. The transaction was completed on 31 March 2011 and resulted in a gain on disposal of HK$7,974,000.

28. Trade Payables

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within 1 month	**162,295**	126,352
1 to 2 months	**8,927**	3,739
2 to 3 months	**3,099**	1,240
Over 3 months	**4,950**	4,846
	179,271	136,177

The trade payables are non-interest-bearing and generally with payment terms within 60 days.

29. Other Payables and Accruals

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**71,242**	64,585	**295**	6
Accruals	**224,591**	151,334	**740**	732
Deferred revenue	**3,338**	–	**–**	–
	299,171	215,919	**1,035**	738

Other payables are non-interest-bearing.

30. Interest-Bearing Bank Borrowings

Group	2011 Effective interest rate (%)	2011 Maturity	2011 HK$'000	2010 Effective interest rate (%)	2010 Maturity	2010 HK$'000
Current						
– Bank loans, secured	**0.35**	**2012**	**21,382**	3.82	2011	9,404
– Bank loans which contain a repayment on demand clause, secured	**3.82**	**2013–2020**	**486**	3.82	2012–2020	1,869
			21,868			11,273

Term loans of the Group with carrying amount of HK$21,868,000 (2010: HK$11,273,000) containing repayment on demand clause have been classified in total as current liabilities in accordance with HK Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*. Accordingly, portion of the bank loans due for repayment after one year with carrying amounts of HK$486,000 (2010: HK$1,869,000) have been reclassified as current liabilities. Ignoring the effect of any repayment on demand clause and based on the maturity terms of the loans, the loans are repayable:

	Group 2011 HK$'000	Group 2010 HK$'000
Within one year	**21,382**	9,404
In the second year	**60**	1,383
In the third to fifth years, inclusive	**193**	188
Beyond five years	**232**	298
	21,868	11,273

Note:
At the end of the reporting period, the Group's bank loans and facilities were secured by:

(i) mortgages over certain of the Group's leasehold land and buildings situated in Hong Kong, which had an aggregate net carrying value at the end of the reporting period of HK$56,323,000 (2010: HK$78,664,000);

(ii) mortgages over certain of the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the end of the reporting period of HK$7,340,000 (2010: HK$6,520,000); and

(iii) the pledge of certain of the Group's time deposits amounting to HK$11,914,000 (2010: HK$31,200,000).

31. Finance Lease Payables

The Group leases certain of its equipment and motor vehicles for its operations. These leases are classified as finance leases and have remaining lease terms ranging from one to five years.

At 31 December 2011, the Group's total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**341**	203	**323**	200
In the second year	**239**	171	**225**	171
In the third to fifth years, inclusive	**412**	26	**396**	26
Total minimum finance lease payments	**992**	400	**944**	397
Future finance charges	**(48)**	(3)		
Total net finance lease payables	**944**	397		
Portion classified as current liabilities	**(323)**	(200)		
Non-current portion	**621**	197		

The above finance leases are denominated in Hong Kong dollars and bear interest at rates ranging from 3.0% to 5.4% (2010: 4.6% to 5.4%) per annum.

32. Due to Non-Controlling Shareholders of Subsidiaries

The amount due to a non-controlling shareholder of subsidiaries or its affiliate are unsecured, interest-free and repayable not later than 11 August 2016, except for the dividend payable of HK$60,000 as at 31 December 2011 to a non-controlling shareholder of a subsidiary, which is payable on demand.

The balance in the prior year represented the amount due to the non-controlling shareholder of subsidiaries, in which Mr. Chan Yue Kwong, Michael, a non-executive director of the Company, is also a director of the holding company of the non-controlling shareholder of subsidiaries, and the amount due thereto was fully settled during the year.

33. Share Capital

	Company 2011 HK$'000	2010 HK$'000
Authorised:		
23,400,000,000 (2010: 23,400,000,000) ordinary shares of HK$0.10 each	**2,340,000**	2,340,000
Issued and fully paid:		
1,017,293,000 (2010: 1,016,141,000) ordinary shares of HK$0.10 each	**101,729**	101,614

A summary of the transactions during the years ended 31 December 2010 and 2011 in the Company's issued share capital is as follows:

	Number of ordinary shares	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January and 31 December 2010, and 1 January 2011	1,016,141,000	101,614	316,526	418,140
Share options exercised (note)	1,152,000	115	3,945	4,060
At 31 December 2011	1,017,293,000	101,729	320,471	422,200

Note: The subscription rights attaching to 1,152,000 share options were exercised at a subscription price of HK$1.59 per share (note 34), resulting in the issue of 1,152,000 ordinary shares of HK$0.1 each for a total cash consideration of approximately HK$1,832,000 and additional share capital of approximately HK$115,000 and share premium of approximately HK$1,717,000 (before share issue expenses). In addition, the attributable share option reserve of HK$2,228,000 was transferred to the share premium account.

34. Share Option Schemes

The Company operates a pre-initial public offering share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme"), (collectively, the "Schemes") for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations and to motivate eligible participants to work towards enhancing the value of the Group for the benefits of the Group and the shareholders as a whole. The principle terms of the Pre-IPO Share Option Scheme are similar to the terms of the Share Option Scheme except that (i) no further options could be granted under the Pre-IPO Share Option Scheme upon the listing of the Company; (ii) the exercise price of the share options; and (iii) the vesting period, are different as further detailed below.

Eligible participants of the Schemes include the Company's directors (including executive directors, non-executive directors and independent non-executive directors), employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters or service providers of any member of the Group who, in the opinion of the board of directors, have contributed or will contribute to the Group. The Schemes became effective on 9 June 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

34. Share Option Schemes (continued)

The maximum number of unexercised share options currently permitted to be granted under the Schemes is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue on the listing date of the Company on 29 June 2007 (the "Listing Date"). The maximum number of shares issuable under share options to each eligible participant in the Schemes within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in advance in a general meeting.

Share options granted under the Schemes to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue on the date of such grant or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options under the Schemes may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, which period may commence from the date of the offer of the share options, and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Schemes, if earlier.

The exercise price of the share options under the Pre-IPO Share Option Scheme is 50% of the final offer price of the shares issued in connection with the Company's international placing and initial public offering (i.e., HK$1.59 per share) and the share options are exercisable in the following manner:

Period of exercise of the relevant percentage of the options	Maximum percentage of options exercisable
From the second anniversary of the Listing Date to the day immediately preceding the third anniversary of the Listing Date (both days inclusive)	30
From the third anniversary of the Listing Date to the day immediately preceding the fourth anniversary of the Listing Date (both days inclusive)	30
From the fourth anniversary of the Listing Date to the day immediately preceding the fifth anniversary of the Listing Date (both days inclusive)	40

The exercise price of the share options under the Share Option Scheme is determinable by the board of directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

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

34. Share Option Schemes (continued)

The following share options granted under the Pre-IPO Share Option Scheme were outstanding during the year:

	2011		2010	
	Weighted average exercise price per share HK$	**Number of options '000**	Weighted average exercise price per share HK$	Number of options '000
At 1 January	**1.59**	**10,500**	1.59	11,090
Exercised during the year	**1.59**	**(1,152)**	–	–
Forfeited during the year	**1.59**	**(150)**	1.59	(590)
At 31 December	**1.59**	**9,198**	1.59	10,500

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2011 was HK$2.80 per share (2010: No Pre-IPO share options were exercised).

The exercise prices and exercise periods of the share options granted under the Pre-IPO Share Option Scheme outstanding as at the end of the reporting period are as follows:

	Number of options '000	**Exercise price** HK$ per share	**Exercise period**
2011	9,198	1.59	29 June 2009 to 28 June 2012
2010	10,500	1.59	29 June 2009 to 28 June 2012
2009	11,090	1.59	29 June 2009 to 28 June 2012
2008	13,110	1.59	29 June 2009 to 28 June 2012

The Group recognised a share option expense of approximately HK$1,019,000 (2010: HK$2,467,000) and forfeited a share option with a value amounting to HK$277,000 during the year. The fair value of the share options granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2007 was HK$29,310,000 (HK$1.93 each).

At 31 December 2011, the Company had 9,198,000 (2010: 10,500,000) share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 0.90% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 9,198,000 (2010: 10,500,000) additional ordinary shares of the Company and additional share capital of HK$920,000 (2010: HK$1,050,000) and share premium of HK$13,705,000 (2010: 15,645,000) (before share issue expenses).

No share options under the Share Option Scheme were granted during the year.

35. 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 on pages 37 to 38 of the financial statements.

Capital reserve

The capital reserve represents the waiver of an amount due to a shareholder of the Company amounting to approximately HK$110,748,000 pursuant to a declaration dated 31 December 2006 and a deed of release dated 12 March 2007.

Other reserve

The other reserve of the Group represents (i) the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired; and (ii) the difference between the acquisition of equity interests attributable to these then non-controlling shareholders and the nominal value of the shares of a former holding company and an existing subsidiary of the Group issued in exchange therefor prior to the listing of the Company's shares.

(b) Company

	Notes	Share premium account HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Other reserve HK$'000 (note (i))	Retained profits HK$'000	Total HK$'000
At 1 January 2010		316,526	16,739	9	427,527	3,939	764,740
Profit and total comprehensive income for the year	11	–	–	–	–	127,286	127,286
Equity-settled share option arrangements		–	2,467	–	–	–	2,467
Interim 2010 dividend	12	–	–	–	–	(63,001)	(63,001)
Proposed final 2010 dividend	12	–	–	–	–	(64,017)	(64,017)
At 31 December 2010 and 1 January 2011		316,526	19,206	9	427,527	4,207	767,475
Profit and total comprehensive income for the year	11	–	–	–	–	130,211	130,211
Issue of shares	33	3,945	(2,228)	–	–	–	1,717
Equity-settled share option arrangements	34	–	1,019	–	–	–	1,019
Transfer of share option reserve upon the forfeiture or expiry of share options	34	–	(277)	–	–	–	(277)
Additional 2010 dividend	12	–	–	–	–	(49)	(49)
Interim 2011 dividend	12	–	–	–	–	(63,067)	(63,067)
Proposed final 2011 dividend	12	–	–	–	–	(67,141)	(67,141)
At 31 December 2011		320,471	17,720	9	427,527	4,161	769,888

Note:

(i) The other reserve of the Company represents the difference between the cost of investments in subsidiaries pursuant to the Group reorganisation in the prior years and the nominal value of the Company's shares issued in exchange therefor.

36. Business Combinations

On 30 December 2010, the Group entered into agreements with Baixing, Rongli and Yisheng (collectively the "Baixing Group") to acquire a 70% equity interest of the Baixing Group at a total consideration of RMB38,000,000 (approximately HK$44,422,000) (the "Acquisition") effective 1 January 2011. In the opinion of the directors, the Acquisition (i) enables the Group to expand into the upstream part of the supply chain while at the same time benefiting from the profits generated from the poultry farm operations; (ii) provides a stable supply of chicken to meet the increasing demand for poultry products as a result of the Group's business expansion; and (iii) ensures high quality and safety standards of poultry products as these products are bred, fed and processed by the Group's subsidiaries.

The fair values of the identifiable assets and liabilities of the Baixing Group as at the date of the Acquisition were as follows:

	Notes	**Fair value recognised on acquisition** HK$'000
Property, plant and equipment	14	74,232
Biological assets	20	14,853
Inventories		4,199
Trade receivables		9,282
Prepayments, deposits and other receivables		6,376
Cash and bank balances		6,030
Trade payables		(9,066)
Other payables and accruals		(61,457)
Tax payable		(27)
Deferred tax liabilities	21	(3,110)
Non-controlling interests		(12,394)
Total identifiable net assets at fair values		28,918
Goodwill on acquisition (note 17)		15,504
Satisfied by cash		44,422

An analysis of the cash flows in respect of the Acquisition is as follows:

	HK$'000
Cash consideration	(44,422)
Cash and bank balances acquired	6,030
Net outflow of cash and cash equivalents included in cash flows from investing activities	(38,392)
Transaction costs of the Acquisition included in cash flows from operating activities	(1,408)
	(39,800)

Since the Acquisition, the Baixing Group contributed HK$70,186,000 to the Group's revenue and HK$6,131,000 to the consolidated profit for the year ended 31 December 2011.

37. Acquisition of An Additional Interest in A Subsidiary Without Change of Control

On 31 January 2011, the Group acquired an additional 20% of the issued shares of Skybest at a purchase consideration of HK$1,534,000 and thereafter, Skybest became a wholly-owned subsidiary of the Group. The carrying amount of the non-controlling interests in Skybest on the date of acquisition was HK$176,000. The Group recognised a decrease in non-controlling interest of HK$176,000 and a decrease in equity attributable to owners of the parent of HK$1,358,000.

38. Major Non-Cash Transactions

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK$719,000 (2010: nil).

In addition, the Group entered into rental agreements in respect of its restaurant properties under operating leases. Pursuant to the terms and conditions of the rental agreements, the Group is required to restore the restaurant properties to the conditions as stipulated in the rental agreements. During the year, the Group has accrued and capitalised the estimated restoration cost of HK$1,489,000 (2010: HK$939,000) for such obligation.

39. Contingent Liabilities

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank guarantees given in lieu of utility and property rental deposits	**26,249**	28,101	**–**	–
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**236,100**	236,100

As at 31 December 2011, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$21,324,000 (2010: HK$10,670,000).

40. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties (note 16) to third parties under operating lease arrangements with leases negotiated for terms ranging from two to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2011 **HK$'000**	2010 HK$'000
Within one year	**6**	6

(b) As lessee

The Group leases certain of its office premises and restaurant and bakery properties under operating lease arrangements with lease terms ranging from one to fifty years and certain of the leases comprise renewal options.

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2011 **HK$'000**	2010 HK$'000
Within one year	**238,326**	205,702
In the second to fifth years, inclusive	**393,876**	325,728
Beyond five years	**184,269**	121,183
	816,471	652,613

The operating leases of certain restaurant and bakery properties also call for additional rentals, which will be based on a certain percentage of revenue of the operation being undertaken therein pursuant to the terms and conditions as stipulated in the respective rental agreements. As the future revenue of these restaurants could not be accurately determined as at the end of the reporting period, the relevant contingent rental has not been included.

41. Commitments

In addition to the operating lease commitments detailed in note 40(b) above, the Group had the following capital commitments at the end of the reporting period:

	2011 HK$'000	2010 HK$'000
Contracted, but not provided for:		
Property, plant and equipment	**76,423**	7,975
Acquisition of subsidiaries	**–**	39,980
	76,423	47,955

42. Connected and Related Party Transactions

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transaction with a connected and related party during the year:

	2011 HK$'000	2010 HK$'000
Rental expense to a related party (note)	**48**	48

Note: The rental expense to a related party, Madam Chan Sai Ying, who is the spouse of Mr. Chung Wai Ping, was charged based on mutually agreed terms at a monthly fixed amount of HK$4,000 (2010: HK$4,000).

The related party transaction mentioned above constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

43. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets

	2011 HK$'000	2010 HK$'000
Loans and receivables:		
Loan to an associate (note 19)	**2,062**	2,062
Rental deposits	**94,278**	75,750
Other deposit	**1,648**	4,442
Trade receivables	**25,720**	13,528
Financial assets included in prepayments, deposits and other receivables (note 24)	**47,308**	32,270
Pledged deposits	**11,914**	31,200
Restricted cash	**71,057**	–
Cash and cash equivalents	**311,445**	382,655
	565,432	541,907

Financial liabilities

	2011 HK$'000	2010 HK$'000
Financial liabilities at amortised cost:		
Trade payables	**179,271**	136,177
Financial liabilities included in other payables and accruals	**283,405**	204,099
Interest-bearing bank borrowings	**21,868**	11,273
Finance lease payables	**944**	397
Due to non-controlling shareholders of subsidiaries	**11,451**	946
	496,939	352,892

43. Financial Instruments by Category (continued)

Company

Financial assets

	2011 HK$'000	2010 HK$'000
Loans and receivables:		
Due from a subsidiary	**490,414**	482,453
Cash and cash equivalents	**412**	2,141
	490,826	484,594

Financial liabilities

	2011 HK$'000	2010 HK$'000
Financial liabilities at amortised cost:		
Other payables and accruals	**1,035**	738

44. Fair Value and Fair Value Hierarchy

At the end of the reporting period, the carrying amounts of the Group's and Company's financial assets and financial liabilities approximated to their fair values.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Trade receivables, financial assets included in prepayments, deposits and other receivables, pledged deposits, restricted cash, cash and cash equivalents, trade payables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings, current portion of finance lease payables and an amount due to non-controlling shareholders of subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of rental deposits, other deposit, loan to an associate, non-current portion of finance lease payables and amounts due to non-controlling shareholders of subsidiaries have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

45. Financial Risk Management Objectives and Policies

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

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates. The Group's policy is to obtain the most favourable interest rates available for its borrowings.

For Hong Kong dollar floating-rate borrowings, assuming that the amount of liability outstanding at the end of the reporting period was outstanding for the whole year with all other variables held constant, a 50 basis point increase/ decrease in interest rates at 31 December 2011 and 2010 would have decreased/increased the Group's profit before tax by HK$109,000 and HK$56,000, respectively.

Credit risk

The Group's major exposure to credit risk arises from default of trade receivables, with a maximum exposure equal to their carrying amounts in the consolidated statement of financial position. The Group has no significant concentrations of credit risk with respect to its operations as it has a large number of diversified customers. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which mainly comprise cash and bank balances, and deposits and other receivables, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Foreign currency risk

The Group operates in Hong Kong and Mainland China and is exposed to foreign exchange risk arising mainly from transactions in RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in operations in Mainland China. The RMB is not a freely convertible currency. Future exchange rates of the RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic development and political changes domestically and internationally, and the demand and supply of the RMB. The appreciation or devaluation of the RMB against the Hong Kong dollar may also have an impact on the operating results of the Group.

In addition, the Group's foreign exchange position is monitored on an ongoing basis in order to minimise the impact from the fluctuation of foreign currency. The Group currently does not maintain a foreign currency hedging policy. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Liquidity risk

The Group's objective is to ensure that there are adequate funds to meet commitments associated with its financial liabilities and to maintain a balance between continuity of funding and flexibility through the use of bank loans and finance leases. Cash flows of the Group are closely monitored by senior management on an ongoing basis. In addition, banking facilities have been put in place for contingency purposes.

45. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2011			
	Repayable on demand/ no fixed terms of repayment HK$'000	**Less than 1 year HK$'000**	**1 to 5 years HK$'000**	**Total HK$'000**
Trade payables	**–**	**179,271**	**–**	**179,271**
Other payables and accruals	**–**	**294,099**	**–**	**294,099**
Interest-bearing bank borrowings (note)	**21,896**	**–**	**–**	**21,896**
Finance lease payables	**–**	**341**	**651**	**992**
Due to non-controlling shareholders of subsidiaries	**60**	**–**	**11,391**	**11,451**
	21,956	**473,711**	**12,042**	**507,709**

Group

	2010			
	Repayable on demand/ no fixed terms of repayment HK$'000	Less than 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade payables	–	136,177	–	136,177
Other payables and accruals	–	204,099	–	204,099
Interest-bearing bank borrowings (note)	11,430	–	–	11,430
Finance lease payables	–	203	197	400
Due to a non-controlling shareholder of subsidiaries	946	–	–	946
	12,376	340,479	197	353,052

45. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

Company

	Less than 1 year	
	2011	2010
	HK$'000	HK$'000
Other payables and accruals	**1,035**	738

As at 31 December 2011, the banking facilities granted to the subsidiaries subject to the guarantees given to the banks were utilised by the Company to the extent of approximately HK$21,324,000 (2010: HK$10,670,000).

Note:
Included in the above interest-bearing bank borrowings are term loans with carrying amount of HK$21,868,000 (2010: HK$11,273,000). The loan agreements contain a repayment on-demand clause giving the bank the unconditional right to call in the loans at any time and therefore, for the purpose of the above maturity profile, the total amount is classified as "repayable on demand".

Notwithstanding the above clause, the directors do not believe that the loans will be called in their entirety within12 months, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements; the Group's compliance with the loan covenants; the lack of events of default; and the fact that the Group has made all previously scheduled repayments on time.

In accordance with the terms of the loans which contain a repayment on-demand clause, the maturity profile of that loans as at the end of the reporting period, based on the contractual undiscounted payments and ignoring the effect of any repayment on demand clause is as follows:

	Less than 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
As at 31 December 2011	21,410	290	242	21,942
As at 31 December 2010	9,561	1,623	314	11,498

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 shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and business strategies. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 31 December 2010.

45. Financial Risk Management Objectives and Policies (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is total borrowings to total shareholders' equity. Total borrowings includes interest-bearing bank borrowings and finance lease payables. Total shareholders' equity comprises all components of equity attributable to owners of the parent. The Group's policy is to maintain the gearing ratio at a reasonable level. The gearing ratios as at the end of the reporting periods were as follows:

Group

	2011 HK$'000	2010 HK$'000
Total borrowings	**22,812**	11,670
Total equity attributable to owners of the parent	**1,378,503**	1,228,348
Gearing ratio	**1.6%**	0.9%

46. Event After the Reporting Period

On 21 October 2011, the Group entered into a definitive sales and purchase agreement with an independent third party to purchase a building situated in Dongguan at a cash consideration of RMB70,827,000 for the Group's restaurant operation. The transaction was completed on 20 February 2012 upon the issue of the Property Ownership and Land Use Rights Certificate. Subsequent to the end of the reporting period, the building was recognised as property, plant and equipment.

47. Comparative Amounts

In prior years, write-off of items of property, plant and equipment was included in "administrative expenses". During the year, the Group considered it more appropriate to include the write-off of items of property, plant and equipment in "other expenses" to better reflect the underlying nature of the balance. Accordingly, the comparative amount of administrative expenses has been restated to conform with the current year's presentation. The effect of this change was to decrease the administrative expenses and increase the other expenses with aggregate amounts of HK$7,842,000 and HK$914,000 for the years ended 31 December 2011 and 31 December 2010, respectively.

48. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 22 March 2012.

Principal Properties Held for Investment Purposes

Investment Properties

Location	Existing use	Term of lease
Car Parking Space No. 64 in the Basement, Causeway Center, 28 Harbour Road, Wanchai, Hong Kong	Commercial	Long
Flat A on 11th Floor and the balcony appertaining thereto, Wealth House, 108 Castle Peak Road, Cheung Sha Wan, Kowloon	Commercial	Medium
Car Parking Spaces Nos. 107, 109, 110, 120, 121, 122, 123, 125, 126 and 127 on 1st Basement, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong	Commercial	Long

Five-Year Financial Summary

Financial Summary

A summary of the results, and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**3,576,099**	2,937,226	2,610,410	2,444,316	2,085,134
Cost of sales	**(3,016,631)**	(2,491,576)	(2,208,749)	(2,076,033)	(1,789,746)
Gross profit	**559,468**	445,650	401,661	368,283	295,388
Other income and gains, net	**33,395**	18,602	13,605	12,142	62,140
Selling and distribution costs	**(92,781)**	(67,557)	(49,565)	(43,413)	(22,387)
Administrative expenses	**(169,088)**	(117,957)	(107,377)	(103,629)	(79,859)
Other expenses	**(8,682)**	(914)	(1,096)	(1,998)	(5,660)
Finance costs	**(461)**	(495)	(914)	(2,406)	(4,747)
Share of profits and losses of associates, net	**–**	–	175	189	50
PROFIT BEFORE TAX	**321,851**	277,329	256,489	229,168	244,925
Income tax expense	**(63,094)**	(55,590)	(46,136)	(37,308)	(42,350)
PROFIT FOR THE YEAR	**258,757**	221,739	210,353	191,860	202,575
Attributable to:					
Owners of the parent	**254,956**	219,386	208,530	189,129	200,306
Non-controlling interests	**3,801**	2,353	1,823	2,731	2,269
	258,757	221,739	210,353	191,860	202,575

Assets, Liabilities and Non-Controlling Interests

	As at 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**1,950,855**	1,626,456	1,445,896	1,358,785	1,271,529
TOTAL LIABILITIES	**(555,123)**	(395,210)	(317,775)	(326,667)	(339,902)
NON-CONTROLLING INTERESTS	**(17,229)**	(2,898)	(1,671)	(2,311)	(2,099)
	1,378,503	1,228,348	1,126,450	1,029,807	929,528

TAO HEUNG HOLDINGS LIMITED

No.18 Dai Fat Street, Tai Po Industrial Estate
Tai Po, New Territories, Hong Kong

www.taoheung.com.hk