稻香集團

ANNUAL REPORT 2013

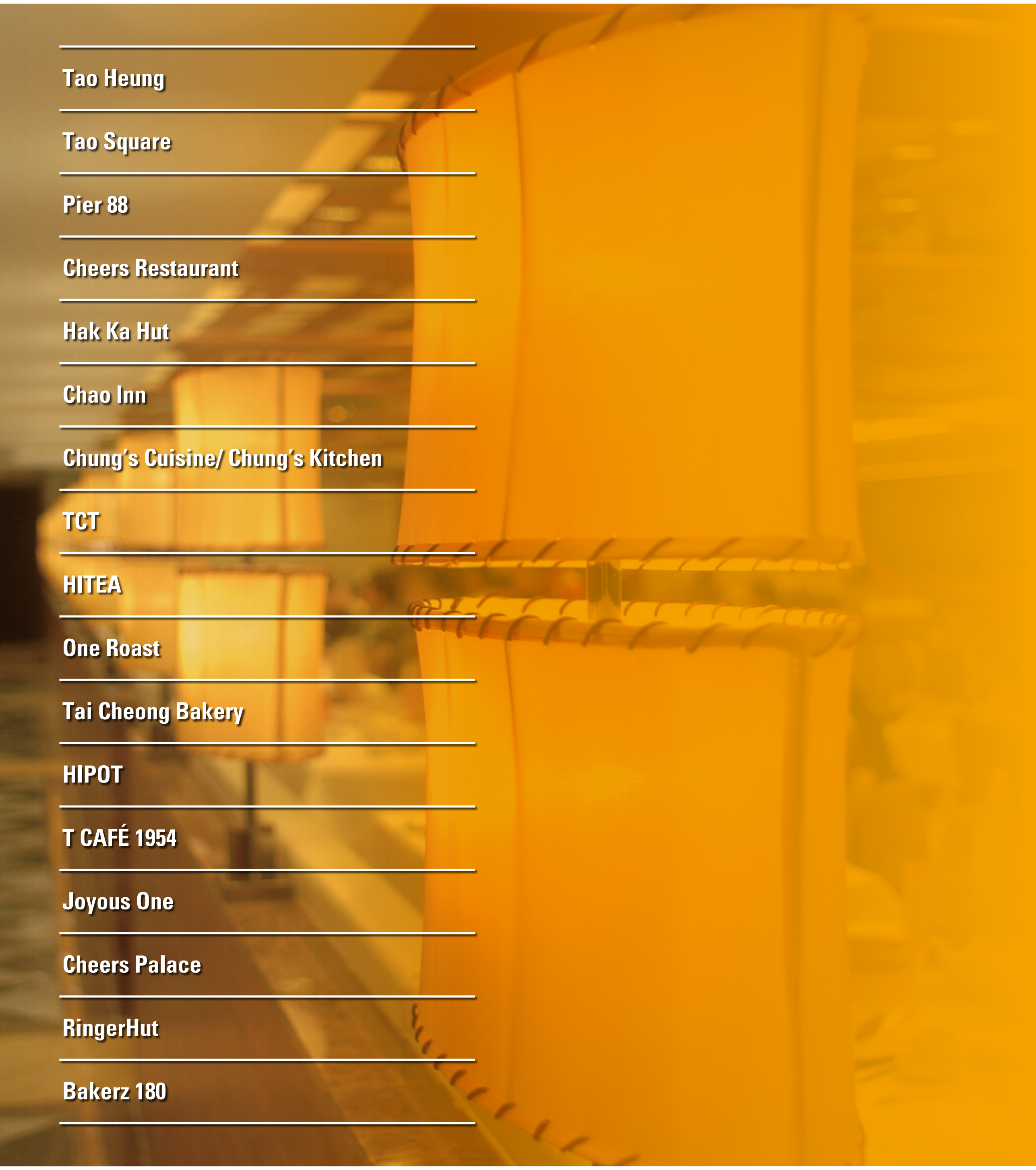
Tao Heung Holdings Limited

稻香控股有限公司*

(Incorporated in the Cayman Islands with Limited Liability)

Stock Code : 573

* For identification purposes only



- Tao Heung
- Tao Square
- Pier 88
- Cheers Restaurant
- Hak Ka Hut
- Chao Inn
- Chung's Cuisine/ Chung's Kitchen
- TCT
- HITEA
- One Roast
- Tai Cheong Bakery
- HIPOT
- T CAFÉ 1954
- Joyous One
- Cheers Palace
- RingerHut
- Bakerz 180

Corporate Mission

Time-honored and profound, Chinese dining culture is highly appraised by gourmet all over the world. Tao Heung, we have been committing ourselves to enhance the image of Chinese catering. Hence we make investment in training talented fellows as well as put focus in raising the competency of our staff and encouraging innovative ideas. We endeavor to advance abreast for a common goal where Tao Heung becomes the most esteemed and popular Chinese restaurant group, and lead is taken to open up a new direction for Chinese dining.

Aim

Since the establishment of our first restaurant at Sai Wan in 1991, Tao Heung has determined to go into the mass and always believed in Delicious & Value as business strategy. It is our dedication to share the Value for Money with the public at large.

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

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110, 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
BNP Paribas Hong Kong Branch
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

PRINCIPAL AUDITORS

Ernst & Young

STOCK CODE

573

WEBSITE

www.taoheung.com.hk

FINANCIAL Highlights and Calendar

Key Financial Ratios	Notes	2013 HK$'000	2012 HK$'000	Increase/ (Decrease) in %
Performance				
Revenue		**4,320,453**	4,055,809	6.5%
Profit attributable to owners of the parent		**274,204**	299,199	(8.4%)
Gross profit margin		**14.3%**	15.6%	(8.3%)
Net profit margin	1	**6.3%**	7.4%	(14.9%)

Per Share Data		HK cents	HK cents	
Earnings per share				
– Basic		**26.84**	29.32	(8.5%)
– Dilutive		**26.76**	29.24	(8.5%)
Interim dividend per share		**6.20**	6.20	–
Proposed final dividend per share		**6.30**	6.80	(7.4%)

	Notes	2013 HK$'000	2012 HK$'000	Increase/ (Decrease) in %
Total assets		**2,610,267**	2,319,447	12.5%
Net assets		**1,741,786**	1,577,115	10.4%
Cash and cash equivalents		**371,267**	421,144	(11.8%)
Net cash	2	**119,802**	346,659	(65.4%)
Liquidity and Gearing				
Current ratio	3	**1.1**	1.1	–
Quick ratio	4	**0.8**	0.9	(11%)
Gearing ratio	5	**14.7%**	4.8%	206.3%

Per Share Data		HK cents	HK cents	
Net assets per share	6	**170.49**	154.38	10.4%
Net cash per share	7	**11.73**	33.93	(65.4%)

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 asset per share is calculated based on the number of 1,021,611,000 shares (2012: 1,021,611,000 shares).
7. Net cash per share is calculated based on the number of 1,021,611,000 shares (2012: 1,021,611,000 shares).

CALENDAR

Announcement of interim results	22 August 2013
Announcement of annual results	20 March 2014
Despatch of annual report to shareholders	16 April 2014
Closure of register of members	
for attending the annual general meeting	19 May 2014 to 22 May 2014
for proposed final dividend	3 June 2014 to 9 June 2014
Annual general meeting	22 May 2014
Dividends	
Interim: HK6.20 cents per share paid	11 October 2013
Final: HK6.30 cents per share payable on	11 June 2014

CHAIRMAN'S Statement

Tao Heung was able to maintain its profitability through business strategies in Hong Kong and Mainland China combining network expansion with effective promotion, increased operational efficiency as well as the benefits of automation at two logistics centres.

During the latest financial year, the food catering industry continued to face stiff challenges in the form of waning consumption sentiment, escalating staff and rental costs, and in the case of Hong Kong, lacklustre economic growth aggravated by rising inflation. Despite the adverse conditions, we remained adamantly in favour of pursuing our tried and tested business strategies in Hong Kong and Mainland China, which combine prudent network expansion with effective promotions, cuisine that cater for local preferences and effective cost controls for reigning in expenditures.

In view of the Group's ability to sustain profitability during the review year, as well as its commitment to delivering fair returns to shareholders, the Board has resolved to declare a final dividend of HK6.3 cents per share. Together with an interim dividend of HK6.2 cents per share already paid, total dividend per share will amount to HK12.5 cents for the financial year, representing a payout ratio of 46.6%.

PROMISING DEVELOPMENTS IN MAINLAND CHINA

In Mainland China, the Group realised double-digit revenue growth, underscoring its ability to satisfy the increasingly discerning culinary desires of the middleclass, a segment that Tao Heung specifically targets. As at the reporting period, the Group opened an additional five restaurants in the country located in Foshan, Guangzhou, Heshan, Shanghai and Zhongshan, thus bringing the total number of restaurants in Mainland China to 30. Such openings also helped raise revenue contribution to the Group, with the Mainland China operation accounting for 30.4% of Tao Heung's total revenue in 2013, up from 26.3% in 2012. The performance of the Shanghai establishment has been particularly encouraging, having already reached breakeven point, which suggests that our focus on first-tier cities is correct, and that moving outside of Guangdong Province, the traditional region for Cantonese cuisine, can be achieved where adequate planning and resources are in place.

RESOLUTE AMID CHALLENGING CONDITIONS IN HONG KONG

Back in Hong Kong, consumption sentiment has remained lacklustre, mainly due to rising inflation. To alleviate weak local consumption sentiment, the Group continued to employ its popular promotions, including the renowned "HK$1 Chicken" and "Double Happiness" (筷樂孖寶) bundle-sale offer, along with a new "Spicy Chicken Hotpot" (麻辣雞煲) promotion which always target to reinforce the Group's core value of "Value for Money". We also opened additional four restaurants during the year, raising the total number of restaurants in the Territory to 79. Consequently, revenue from the Hong Kong operation experienced only a modest increase when compared with the corresponding period of last year.

To ensure that the Group continues to appeal to the young and mass market in Hong Kong, the past year also marked Tao Heung's further diversification into different segments. The opening of "RingerHut" in October marked the Group's entry into Japanese cuisine, while the opening of "T CAFÉ 1954" in December showcased our ability to capitalise on the popularity of the Tai Cheong Bakery operation and expand the business into a different sphere.

OUTLOOK

Going forward, the management maintains the view that the roadmaps for growth in Mainland China and Hong Kong remain sound despite the peculiarities and challenges that each market poses.

In Mainland China, the Group's efforts at moving beyond the Pearl River Delta, and which includes opening restaurants in provincial cities has proved to be successful, as exemplified by the profitability of establishments in Nanning and Wuhan. The almost immediate success of our restaurant in Shanghai also encourages us to enhance our presence in major metropolitan centres. In each instance, a strong concentration of middleclass consumers was present; hence, we will continue to establish restaurants in areas where this important demographic is evident, whether in Guangdong Province, eastern China or provincial city given that their presence leads to stable economic conditions that are essential for any business to flourish. Correspondingly, we plan to open restaurants in provincial cities selectively, while restaurants in major cities in Guangdong province and eastern China will continue to grow according to existing plans.

In respect of "Bakerz 180", a newly acquired bakery operation in Mainland China which Tao Heung holds 60% controlling interest as of 2013, this peripheral business will continue to expand its network across

Shenzhen, and will extend its reach outside the region to Guangzhou starting from 2014. The strategic acquisition of "Bakerz 180" in Mainland China, coupled with its counterpart, Tai Cheong Bakery in Hong Kong, will mean that the bakery chains will help to quickly expand the Group's overall retail channels and thereby complement its development as a whole. The management will therefore continue to direct efforts at encouraging the growth of "Bakerz 180" going forward.

Back in Hong Kong, we will further consolidate our presence in the Territory by opening around three to four restaurants in 2014. Observing a highly prudent expansion strategy, each opening will focus squarely on enhancing investment return and profitability, with the ultimate objective of achieving sustainable and stable growth. Initiatives aimed at lifting operational efficiency will also be implemented at existing restaurants to realise the aforesaid objective. With regards to maintaining customer traffic in existing and new stores, we will continue to leverage our ability to introduce good value-for-money promotions, which also serve to reward loyal patrons. Looking to build on our most recent milestones, namely, "T CAFÉ 1954" and "RingerHut", the plan for additional restaurant openings is on the table. With both restaurants having been warmly received by the public, this suggests that the two newest additions to the Tao Heung family have viable futures, creating more revenue streams for the Group.

While network expansion has been integral to the Group's advancement, so too has been the development of an effective vertical-integration framework. Hence, the efficiency of the Dongguan and Tai Po logistics centres will be of increasing relevance to the Group as it continues to develop in the Mainland China and Hong Kong markets. Mindful of this, we will further optimise food processing procedures in order to bolster efficiency while at the same time enhance food safety. With Dongguan Phase 2 set for completion by 2014, this will help facilitate the realisation of our development objectives, which include the establishment of a catering network of 200 outlets around the country by 2017.

RECOGNITION

As Tao Heung continues to develop, exceptional management will invariably be called for. While such expertise has never been lacking, it is nonetheless an honour that our management capabilities have been recognised and supported by distinguished organizations over the years, particularly since Tao Heung operates in such a traditional industry. The earning of "Best Mid Cap Company" title from *FinanceAsia* (2008), inclusion of our company in *Forbes Asia's* renowned "Best 200 Under a Billion" list, and more recently being named "Best Small Cap Company – Hong Kong" at the "Best Managed Company in Hong Kong Awards" by Asiamoney (2013), are immense honours that we are highly grateful for and will help motivate us to achieve even more. Consequently, we will continue to examine ways to bolster our management capabilities, leading to the further advancement of Tao Heung.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my appreciation to the management team for their contributions to the Group and to the entire workforce for the diligence and dedication demonstrated during the course of the year. I wish to also offer my gratitude to the many customers, business partners and shareholders for their unwavering support.

Chung Wai Ping
Chairman

Hong Kong
20 March 2014

MAJOR Milestones and Events

2013 JAN	Becomes a sole shareholder of Tai Cheong Bakery
MAY	Becomes a single largest shareholder of Bakerz 180, a renowned bakery chain in the Southern China
JUL	Tao Heung Training Restaurant was awarded three international accreditations:ISO22000,ISO14001 and ISO50001
JUL	The mooncake production of Tao Heung Group was awarded two international accreditations: ISO22000 and HACCP

AUG The first time entered Shanghai, and opened branch of "Tao Heung"

OCT Introduces the first Nagasaki-style Champon noodle shop in Hong Kong

DEC A trendy '50s inspired café–T CAFÉ 1954 opened

DEC A revamped brand "Tao Square" was established in China Minmetals Tower, Tsim Sha Tsui

MANAGEMENT
Discussions and Analysis

REVIEW

The Board is pleased to announce the Group's annual results for the year ended 31 December 2013. During the past financial period, the business environment remained testing in both Hong Kong and Mainland China. In the former, rising inflation, which averaged 4.3% in 2013 according to The Census and Statistics Department, depressed consumption sentiment. Increased minimum wage also added pressure on the local catering business as people were less inclined to enter the industry, thus leading to a shortage of labour. In Mainland China, the implementation of austerity measures by the Chinese government to contain overspending among officials indirectly impacted on the catering sector as it felt the ripple effect of downturns in state-owned and commercial enterprises. In both markets the Group was not impervious to the challenging conditions, hence realising only modest revenue gains.

Optimism can nonetheless be drawn by the fact that in Mainland China, the Group's well-defined strategy of targeting the middleclass consumer segment, especially in major cities, resulted in notable business growth. In Hong Kong, the Group's effective marketing and promotion campaigns were able to stimulate consumption, and thereby help alleviate rising cost of labour and rent. Owing to increased efficiency and automation achieved at the logistics centres in Hong Kong and Mainland China, both helping to protect the profitability of the Group.

FINANCIAL RESULTS

Total revenue generated by the Group amounted to approximately HK$4,320.5 million for the review year, representing an increase of 6.5% over the corresponding period of last year (2012: HK$4,055.8 million). Factors for the increase include the opening of nine new restaurants in 2013, four of which were in Hong Kong and five in Mainland China – including the closure or relocation of existing establishments. By being well positioned in Mainland China to tap consumption growth among the middleclass, and seizing opportunities presented by major cities including Shanghai, such factors further contributed to the rise in turnover. Underscoring the Group's encouraging development in the country was the increase in turnover achieved by the Mainland China business – up by more than 20% – despite an industry-wide recession caused by austerity measures imposed by the government to curb excessive spending by officials. EBITDA of HK$609.5 million (2012: HK$614.2 million) was reported for the year, which is similar to the corresponding period of last year. However, due to substantial depreciation recorded, particularly in relation to newly established restaurants in Mainland China, a slight decline in profitability was experienced, with profit attributable to owners of the parent amounting to HK$274.2 million (2012: HK$299.2 million).

HONG KONG OPERATIONS

The Hong Kong operations reported revenue of HK$3,006.3 million in 2013, a modest year-on-year increase of 0.6% (2012: HK$2,989.5 million). This highlights the impact of high inflation in Hong Kong and weak consumption sentiment, which was further aggravated by media exposure in April that impaired the Group's business most significantly during the second and third quarters, though began to dissipate by the fourth quarter. The turnaround was achieved through quick and decisive remedial action taken immediately after the incident. The Hong Kong operations accounted for 69.6% of the Group's total turnover. Gross profit remained at a similar level with 2012, though EBITDA declined by 12.9% to HK$368.7 million. Profit attributable to owners of the parent fell by 10.7% to HK$208.7 million, owing in part to an increase in rental and labour costs.

Tao Heung operated a total of 79 outlets in Hong Kong as at 31 December 2013, representing a net increase of four restaurants over 2012, taking into account the relocation and closure of existing establishments. To attract restaurant goers, the Group continued to employ its well-tested marketing campaigns and product promotions, including the "HK$1 Chicken", and "Double Happiness" (筷樂孖寶) special offers. Furthermore, the Group launched an innovative "Spicy Chicken Hotpot" (麻辣雞煲) promotion aimed at the mass market and thereby drove revenue contributions upward during the late-night supper period. All of the above promotions were effective at limiting the decline in customer traffic as consumption sentiment continued to sway.

Consistent with the management's objective to further refine the Group's brand portfolio to cater for different customer segments, it elected to rebrand the Tao Square (稻坊) brand to target middleclass restaurant goers. The first product of this effort was the opening of a new Tao Square restaurant in Tsim Sha Tsui, which began welcoming patrons in late 2013. The restaurant was warmly received by the general public and the Group plans to redevelop its Tao Square restaurant in Mei Foo by the end of March leveraging the initial success of the Tsim Sha Tsui establishment.

Yet another market segment that the management has continued to aggressively tap is the young consumer market. Correspondingly, several initiatives were implemented by the management during the year, leading to a number of milestones. The opening of "RingerHut" in October enabled the Group to introduce the first Nagasaki-style Champon noodle shop in Hong Kong, thus marking Tao Heung's entry into the Japanese cuisine market while concurrently enabling it to introduce a healthy ramen trend to the city. Having been well received by restaurant goers, "RingerHut" is expected to reach breakeven point in 2014. Adding to its growing number of specialty restaurants is "T CAFÉ 1954", a trendy'50s inspired café that also draws on the popularity of Tai Cheong Bakery from which its image and menu are owed.

In respect of the Tai Cheong Bakery operation, which Tao Heung holds 100% equity interest since January 2013, four new shop openings were realised during the year, thus bringing the total number of establishments to 25 as at 31 December 2013. The network expansion contributed to respectable year-on-year revenue growth of 22.3%.

MAINLAND CHINA OPERATIONS

Due to shrewd network expansion over the past several years, Tao Heung has been able to achieve rapid growth in Mainland China, and this has continued during the latest financial year. During the year, revenue rose by 23.2% to HK$1,314.2 million, despite austerity measures implemented by the Chinese government (2012: HK$1,066.3 million). EBITDA rose at a similar rate, climbing by 26.2% to HK$240.8 million, which included a HK$7.0 million write-off on assets resulting from the closure of the wholesale segment of the poultry farm, which is part of the Group's peripheral business. A particularly positive development has been the establishment and success of its Shanghai restaurant. Opened in August 2013, it achieved operational profit within the first six months of business. The Shanghai restaurant clearly highlights Tao Heung's ability to appeal to middleclass customers in major cities; accurately positioning itself while at the same time increasing brand awareness among Mainland Chinese. Aside from the opening in Shanghai, residents in Foshan, Guangzhou, Heshan and Zhongshan were greeted to new restaurants from the Group as well. The five new restaurants opened during the review year and eight new restaurants in 2012 have however led to increase depreciation expenses, which were irregularly high during the year, rising by 50.4% year-on-year to HK$134.2 million. This together with decrease in same store sales induced by the austerity measure placed downward pressure on profitability. Nonetheless, investments in new restaurants are essential for the Group's sustainable growth in the middle-to-long term as they contribute to the creation of a larger business network and new streams of revenue and profit.

The management maintains the belief that the performance of the Mainland China operation will continue to improve once network expansion efforts are further advanced, and anticipates a rebound in the second half of 2014 after the market has fully adapted to the austerity measures introduced by the Central government.

With regards to the Bakerz 180 bakery chain that the Group holds 60% interest since May 2013, the business narrowed its losses since Tao Heung's takeover. In total, the Group absorbed HK$5.8 million in losses from the bakery chain in 2013. Breakeven point is expected to be reached in 2015 thanks to improved operating efficiency.

Six stores were in operation when Tao Heung took control of the business, and two more stores were opened in 2013, bringing the total to eight. A Guangzhou outlet is also set to open in March 2014, making it the first Bakerz 180 situated outside of Shenzhen. By the end of 2014, the total number of Bakerz 180 outlets is expected to reach 13.

LOGISTICS CENTRES

Both logistics centres in Tai Po and Dongguan play crucial roles in maintaining high food quality and food hygiene, as well as the cost effective implementation of the Group's various value-for-money promotions. By further enhancing efficiency during the year, the Tai Po and Dongguan logistics centres were able to achieve outputs of 1,050 tonnes per month respectively.

With respect to the Tai Po logistics centre in Hong Kong, efforts were also made at increasing automation, as well as raising the proportion of finished products delivered to restaurant so as to better standardise quality.

PERIPHERAL BUSINESS

The peripheral business continued to provide a steady source of revenue to the Group, which amounted to HK$143.6 million (2012: HK$143.8 million), a similar level in 2012. The poultry farm also realised revenue growth, rising by 15.6% year-on-year to HK$92.4 million, while fulfilling its role of providing a stable and safe supply of high-quality pork and poultry to the Group.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2013, the Group's total assets increased to approximately HK$2,610.3 million (2012: approximately HK$2,319.4 million) while the total equity increased to approximately HK$1,741.8 million (2012: approximately HK$1,577.1 million).

As at 31 December 2013, the Group had cash and cash equivalents of approximately HK$371.3 million. After deducting total interest-bearing bank borrowings of approximately HK$251.5 million, the Group had a net cash surplus position of approximately HK$119.8 million.

As at 31 December 2013, the Group's gearing ratio (defined as total interest-bearing bank borrowings plus finance lease payable divided by total equity attributable to owners of the parent) was 14.7% (2012:4.8%).

CAPITAL EXPENDITURE

Capital expenditure for the year ended 31 December 2013 amounted to approximately HK$530.2 million and capital commitments as at 31 December 2013 amounted to approximately HK$99.3 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 relate to the construction of Phase 2 of Dongguan Logistics Centre.

CONTINGENT LIABILITIES

As at 31 December 2013, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$27.6 million (2012: approximately HK$28.0 million).

FOREIGN EXCHANGE RISK MANAGEMENT

The Group's sales and purchases for the year ended 31 December 2013 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 2013, the Group had 9,557 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 2013, approximately 4,340,000 options were outstanding under the Pre-IPO Share Option Scheme and no share options have been exercised during the year. Also, as at 31 December 2013, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

PLEDGE OF ASSETS

As at 31 December 2013, the Group pledged its bank deposits of approximately HK$13.3 million, leasehold land and buildings of approximately HK$40.0 million and investment properties of approximately HK$12.7 million to secure the banking facilities granted to the Group.

PROSPECTS

The challenging business environment of 2013 is expected to extend to 2014, and players in the catering industry will be anticipating consumption sentiment to continue to be erratic.

To achieve stability under such conditions, Tao Heung will continue to introduce appealing promotions that build on the success of renowned high value-for-money offerings while concurrently strengthens the Group's reputation for good value for money. The newly launched "Spicy Chicken Hotpot" (麻辣雞煲) offer introduced in 2013 fully abides by this strategy. Just as the"HK$1 Chicken"and"Double Happiness" (筷樂孖寶) promotions have won the hearts of consumers, the newly launched"Spicy Chicken Hotpot" (麻辣雞煲) offer has successfully attracted young customers from the mass market, leading to greater late night supper revenue contributions. To develop still more varied revenue streams, the management will persist with its diversification strategy, which aims to capture even wider target segments.

With respect to the Mainland China market specifically, it remains a key growth driver that Tao Heung will continue to tap by means of network expansion. In the coming year, the Group will open between six and seven restaurants in the country, with up to two in Shanghai – building on Tao Heung's successful debut in 2013 – one in Shenzhen, one in Zhengzhou and one in Guangzhou. The Group will place particular focus on Guangdong province and eastern China going forward, as such areas have a high concentration of middleclass consumers. Additional focus will be placed on selected provincial cities to increase market penetration.

It is worth noting that the performance of the restaurant in Shanghai has been particularly outstanding, having already achieved operational profit since opening in August 2013. The management believes that this is due first and foremost to the cuisine offered, and secondly to an effective business model that recognises the consumption pattern of Shanghai's middleclass consumers, consequently offering a pricing system that aligns with their normal expenditures. The Group's success in the Shanghai market also highlights its ability to promote Cantonese cuisine as an affordable option to the general public outside Guangdong Province, as it is commonly perceived as an expensive cuisine in Mainland China.

Moving from the middleclass to the mass market, which is the target segment of the Group's business in Hong Kong, the management remains committed to bolstering its presence in this key market. As part of its expansion drive, Tao Heung will open three to four new restaurants in Hong Kong, having confirmed three locations thus far. In respect of the Tai Cheong Bakery, four to five shop openings are planned of which include "T CAFÉ 1954". Following in the footsteps of "T CAFÉ 1954" will be additional openings of "RingerHut", another newly established business that is set to grow by one to two outlets in 2014, having made its successful debut in October 2013.

With the ongoing development of the Group, greater logistical support will be called for; hence opening of the Phase 2 facility at the Dongguan Logistics Centre in 2015 will be most opportune. Construction of the new facility is expected to be completed in 2014, during which the latest production line equipment will be installed, including associated systems designed and set up by overseas experts. Upon opening, the Phase 2 facility will be highly automated to further increase the proportion of finished food delivered to restaurants, and thereby continue the process of standardising the quality of dishes offered to customers. The adoption of highly automated production methods also reduce the Group's reliance on manpower and thus alleviate pressure created by the shortage of labour in both Hong Kong and Mainland China. To encourage still higher efficiency and food quality, construction of a third logistics center in Eastern China will be considered as the Group's business matures in the region.

Though the business climate is expected to remain unstable, the management maintains the view that Tao Heung can sustain growth given its strengths in business development, marketing and promotion, and financial management. Having made clear progress in Mainland China and sustained growth in Hong Kong, the management is confident in the Group's ability to reach its goal of establishing a catering network of 200 outlets by 2017.

DIRECTORS and Senior Management

EXECUTIVE DIRECTORS

Mr. Chung Wai Ping, aged 54, 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. 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. In 2011, Mr. Chung was given the VTC Honorary Fellow Awards. In July 2013, Mr. Chung was awarded a "Medal of Honour" by the HKSAR government. Mr. Chung is a cousin of Mr. Chung Ming Fat, who is an executive Director.

Mr. Wong Ka Wing, aged 56, 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 59, is an Executive Director and was appointed on 29 December 2005. Mr. Chung is one of our founders. Mr. Chung is primarily responsible for overall operation of our Dongguan Logistics Centre. 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 43, 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 51, is an Executive Director and was appointed on 1 March 2007. Ms. Wong is primarily responsible for the overall operation of our Tai Po Logistics Centre. 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 52, is an Executive Director and was appointed on 1 March 2007. Mr. Ho is the Deputy Chief Officer and is primarily responsible for management and development of restaurants chain in Mainland China. 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 56, 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.. Mr. Fong has over 30 years of legal experience. Mr. Fong is also the Honourable legal adviser to the Hong Kong Chinese Civil Servants' Association and to HKU MACJS Alumni Association.

Mr. Chan Yue Kwong, Michael, aged 62, 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 Cafe 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, 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 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 59, 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 Chairman of the Hong Kong Photo Marketing Association Ltd., 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 60, 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 currently a professor in the Department of Marketing and the Director of the EMBA Program in the CUHK. Professor Chan is also currently the Chairman and member of the Process Review Committee, the Hong Kong Monetary Authority and a member of the Electoral Affairs Commission. Professor Chan has approximately 30 years of experience in the education industry.

Mr. Mak Hing Keung, Thomas, aged 51, 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 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 58, 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 the companies are listed on the Main Board of the Stock Exchange. Besides, Mr. Ng is also appointed as an independent non-executive director of Jia Meng Holdings Limited, a company listed on the GEM of the Stock Exchange on 26 September 2013.

SENIOR MANAGEMENT

Mr. Cheng Ho Yuen, aged 48, 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 39, 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 45, 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 17 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 Rules**") of the Stock Exchange throughout the year ended 31 December 2013.

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 18 to 20 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 2012 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.

INDUCTION AND DEVELOPMENT OF DIRECTORS

On appointment to the Board, Directors receive a package of orientation materials on the Group and provided with a comprehensive induction on the business operations and practices of the Group, as well as the general and specific duties of directors under general law and the Listing Rules.

To assist Directors' continuing professional development, details on legal and regulatory changes are provided to all Directors. Directors are also recommended and encouraged to attend forums or seminars relating to the rules, functions and duties of a listed company director.

According to the information provided by the Directors, they have read seminar materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements for the year ended 31 December 2013.

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 2013

	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	3/4	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	2/2	1/1	N/A
Professor Chan Chi Fai, Andrew	3/4	2/2	N/A	1/1
Mr. Mak Hing Keung, Thomas	4/4	2/2	1/1	N/A
Mr. Ng Yat Cheung	3/4	N/A	N/A	1/1
Average attendance rate	93.8%	100.0%	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 2013:

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 2013, 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 22 May 2014.

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 2013 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.

Remuneration of Directors and Senior Management

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of senior management by band for the year ended 31 December 2013 is set out below:

	Number of Individuals
Nil – HK$1,000,000	3

Further particulars in relation to Director's remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 8 and 9 respectively, to the financial statements.

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors understand and acknowledge 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 2013, 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.

The statement by the external auditor of the Company regarding the Directors' reporting responsibilities of the financial statements of the Group is set forth in the Independent Auditors' Report on pages 36 to 37 of this annual report.

COMPANY SECRETARY

Mr. Leung Yiu Chun, our company secretary is responsible for advising the Board on corporate governance matters and ensuring that the Board policy and procedures, and the applicable laws, rules and regulations are followed.

During the year ended 31 December 2013, Mr. Leung has undertaken over 15 hours of relevant professional training.

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 pages 36 to 37 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 2013 is as follows:

	2013 **HK$'000**	2012 HK$'000
Audit fee		
– provision for the year	**2,900**	2,700
Non-audit service fees	**227**	217
Total	**3,127**	2,917

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 2013.

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 related to restaurant operations and poultry farm operations. The activities of the principal subsidiaries are set forth on in note 19 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2013 and state of affairs of the Company and the Group as at that date are set forth in financial statements on pages 38 to 118.

An interim dividend of HK6.20 cents per ordinary share, totaling approximately HK$63,340,000 were paid on 11 October 2013. The directors recommended the payment of a final dividend of HK6.30 cents per ordinary share, totaling approximately HK$64,361,000 in respect of the year to shareholders on the register of members on 30 May 2014. The proposed final dividend for the year ended 31 December 2013 has been approved at the Company's board meeting on 20 March 2014. 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 2013 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, 19 May 2014 to Thursday, 22 May 2014, both days inclusive, for the purpose of ascertaining shareholders' entitlements to attend and vote at the 2013 Annual General Meeting. In order to be eligible to attend and vote at the 2013 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, 16 May 2014; and

(ii) From Tuesday, 3 June 2014 to Monday, 9 June 2014, 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 Friday, 30 May 2014.

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 page 120 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 119.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company are set forth in notes 32 and 33 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. No options were exercised during the year under review. 190,000 options were cancelled upon the termination of employment during the year under review.

During the year, no options granted under the Pre-IPO Share Option Scheme have been exercised yet. 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 2013 which have been granted under the Pre-IPO Share Option Scheme are as follows:

Name	Date of grant	Number of options: Options outstanding at 1 January 2013	Granted during the year	Options exercised during the year	Options lapsed on expiry	Options cancelled upon termination of employment	Options outstanding at 31 December 2013
Other employees	9 June 2007	4,530,000	–	–	–	(190,000)	4,340,000

(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 34(b) to the financial statements and in the consolidated statement of change in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2013, 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$831,451,000 of which HK$64,361,000 has been proposed as a final dividend for the year. The amount of HK$762,747,000 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$359,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2013, 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 29.7% and 11.5% 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 Mr. Chung Wai Ping and Mr. Wong Ka Wing and the following Independent Non-executive Directors namely Professor Chan Chi Fai, Andrew and Mr. Mak Hing Keung, Thomas 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 18 to 21.

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 35 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 2013.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2013, 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	379,006,689	–	391,180,911	38.29
Mr. Wong Ka Wing	(b)	5,522,679	–	103,283,124	–	108,805,803	10.65
Mr. Chung Ming Fat	(c)	–	–	56,795,068	–	56,795,068	5.56
Mr. Leung Yiu Chun		800,000	–	–	–	800,000	0.08
Ms. Wong Fun Ching		800,000	–	–	–	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) 379,006,689 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.

Saved as disclosed above, as at 31 December 2013, 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 2013, 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)	379,006,689	37.10
Joy Mount Investments Limited	(b)	103,283,124	10.11
Perfect Plan International Limited	(c)	102,053,976	9.99
Value Partners Limited	(d)	61,656,000	6.04
Whole Gain Holdings Limited	(e)	56,795,068	5.56

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 Cafe 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 2013, 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 33 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 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 terms 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.

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
20 March 2014

INDEPENDENT AUDITORS' REPORT

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 38 to 118, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, 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 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

20 March 2014

CONSOLIDATED
STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
REVENUE	5	**4,320,453**	4,055,809
Cost of sales		**(3,704,465)**	(3,424,213)
Gross profit		**615,988**	631,596
Other income and gains, net	5	**26,599**	26,949
Selling and distribution expenses		**(98,185)**	(85,174)
Administrative expenses		**(186,967)**	(190,850)
Other expenses		**(15,745)**	(708)
Finance costs	6	**(3,717)**	(604)
Share of losses of associates		**(2)**	(1)
PROFIT BEFORE TAX	7	**337,971**	381,208
Income tax expense	10	**(64,640)**	(77,220)
PROFIT FOR THE YEAR		**273,331**	303,988
Attributable to:			
Owners of the parent	11	**274,204**	299,199
Non-controlling interests		**(873)**	4,789
		273,331	303,988
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic (HK cents)	13	**26.84**	29.32
– Diluted (HK cents)	13	**26.76**	29.24

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 2013

	Note	**2013 HK$'000**	2012 HK$'000
PROFIT FOR THE YEAR		**273,331**	303,988
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**19,199**	13,495
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**292,530**	317,483
Attributable to:			
Owners of the parent	11	**292,812**	312,203
Non-controlling interests		**(282)**	5,280
		292,530	317,483

CONSOLIDATED
STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	31 December 2013 HK$'000	31 December 2012 HK$'000 (Restated)	1 January 2012 HK$'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	14	**1,475,878**	1,277,595	1,031,228
Prepaid land lease payments	15	**63,480**	63,330	19,354
Investment properties	16	**14,850**	12,390	8,540
Goodwill	17	**40,804**	38,569	38,239
Intangible asset	18	**1,451**	–	–
Investments in associates	20	**1,251**	8,587	3,316
Biological assets	21	**2,105**	2,087	2,803
Deferred tax assets	22	**71,731**	66,621	62,934
Rental deposits		**108,355**	101,043	94,278
Deposits for purchases of items of property, plant and equipment		**104,163**	16,756	38,148
Other deposit		**–**	–	1,648
Total non-current assets		**1,884,068**	1,586,978	1,300,488
CURRENT ASSETS				
Inventories	23	**174,813**	173,459	134,833
Biological assets	21	**15,618**	18,305	9,269
Trade receivables	24	**28,196**	27,323	25,720
Prepayments, deposits and other receivables	25	**112,596**	79,190	82,306
Tax recoverable		**10,441**	996	3,823
Pledged deposits	26	**13,268**	12,052	11,914
Restricted cash		**–**	–	71,057
Cash and cash equivalents	26	**371,267**	421,144	311,445
Total current assets		**726,199**	732,469	650,367
CURRENT LIABILITIES				
Trade payables	27	**182,647**	244,471	179,271
Other payables and accruals	28	**275,359**	290,046	251,200
Interest-bearing bank borrowings	29	**183,132**	74,485	21,868
Finance lease payables	30	**214**	313	323
Due to a non-controlling shareholder of a subsidiary		**–**	–	60
Tax payable		**31,868**	41,769	26,764
Total current liabilities		**673,220**	651,084	479,486
NET CURRENT ASSETS		**52,979**	81,385	170,881
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,937,047**	1,668,363	1,471,369

31 December 2013

	Notes	**31 December 2013 HK$'000**	31 December 2012 HK$'000 (Restated)	1 January 2012 HK$'000 (Restated)
NON-CURRENT LIABILITIES				
Other payables and accruals	28	**82,394**	65,953	47,971
Interest-bearing bank borrowings	29	**68,333**	–	–
Finance lease payables	30	**784**	474	621
Due to non-controlling shareholders of subsidiaries	31	**23,381**	11,623	11,391
Deferred tax liabilities	22	**20,369**	13,198	15,654
Total non-current liabilities		**195,261**	91,248	75,637
Net assets		**1,741,786**	1,577,115	1,395,732
EQUITY				
Equity attributable to owners of the parent				
Issued capital	32	**102,161**	102,161	101,729
Reserves	34(a)	**1,551,564**	1,386,453	1,209,633
Proposed final dividend	12	**64,361**	69,470	67,141
		1,718,086	1,558,084	1,378,503
Non-controlling interests		**23,700**	19,031	17,229
Total equity		**1,741,786**	1,577,115	1,395,732

Chung Wai Ping
Director

Leung Yiu Chun
Director

CONSOLIDATED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

		Attributable to owners of the parent											
	Notes	Issued capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000 (note 34(a))	Other reserve HK$'000 (note 34(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 2012		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
Profit for the year		–	–	–	–	–	–	–	299,199	–	299,199	4,789	303,988
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		–	–	–	–	–	–	13,004	–	–	13,004	491	13,495
Total comprehensive income for the year		–	–	–	–	–	–	13,004	299,199	–	312,203	5,280	317,483
Issue of shares	32	432	14,749	–	–	(8,315)	–	–	–	–	6,866	–	6,866
Transfer of share option reserve upon the forfeiture of share options	33	–	–	–	–	(675)	–	–	675	–	–	–	–
Acquisition of non-controlling interests	36	–	–	–	(8,722)	–	–	–	–	–	(8,722)	(1,286)	(10,008)
Dividend paid to a non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	–	–	–	(2,192)	(2,192)
Final 2011 dividend	12	–	–	–	–	–	–	–	(285)	(67,141)	(67,426)	–	(67,426)
Interim 2012 dividend	12	–	–	–	–	–	–	–	(63,340)	–	(63,340)	–	(63,340)
Proposed final 2012 dividend	12	–	–	–	–	–	–	–	(69,470)	69,470	–	–	–
At 31 December 2012		102,161	335,220*	110,748*	11,056*	8,730*	9*	72,206*	848,484*	69,470	1,558,084	19,031	1,577,115

Year ended 31 December 2013

		Attributable to owners of the parent											
	Notes	Issued capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000 (note 34(a))	Other reserve HK$'000 (note 34(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 2013		102,161	335,220	110,748	11,056	8,730	9	72,206	848,484	69,470	1,558,084	19,031	1,577,115
Profit for the year		–	–	–	–	–	–	–	274,204	–	274,204	(873)	273,331
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		–	–	–	–	–	–	18,608	–	–	18,608	591	19,199
Total comprehensive income for the year		–	–	–	–	–	–	18,608	274,204	–	292,812	(282)	292,530
Transfer of share option reserve upon the forfeiture of share options	33	–	–	–	–	(367)	–	–	367	–	–	–	–
Capital contribution from a non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	–	–	–	7,350	7,350
Acquisition of subsidiaries	35	–	–	–	–	–	–	–	–	–	–	(1,252)	(1,252)
Dividend paid to a non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	–	–	–	(1,147)	(1,147)
Final 2012 dividend	12	–	–	–	–	–	–	–	–	(69,470)	(69,470)	–	(69,470)
Interim 2013 dividend	12	–	–	–	–	–	–	–	(63,340)	–	(63,340)	–	(63,340)
Proposed final 2013 dividend	12	–	–	–	–	–	–	–	(64,361)	64,361	–	–	–
At 31 December 2013		102,161	335,220*	110,748*	11,056*	8,363*	9*	90,814*	995,354*	64,361	1,718,086	23,700	1,741,786

* These reserve accounts comprise the consolidated reserves of HK$1,551,564,000 (2012: HK$1,386,453,000) in the consolidated statement of financial position.

CONSOLIDATED
STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**337,971**	381,208
Adjustments for:			
Interest income	5	**(1,766)**	(1,865)
Fair value gains on investment properties	5	**(2,460)**	(3,850)
Finance costs	6	**3,717**	604
Gain on disposal of items of property, plant and equipment, net	7	**(388)**	(269)
Write-off of items of property, plant and equipment	7	**10,308**	708
Change in fair value less costs to sell of biological assets	7	**5,433**	(1,845)
Recognition of prepaid land lease payments	7	**1,204**	1,049
Depreciation of property, plant and equipment	7	**269,647**	233,951
Amortisation of an intangible asset	7	**52**	–
Share of losses of associates		**2**	1
		623,720	609,692
Increase in rental deposits		**(6,620)**	(6,439)
Decrease/(increase) in inventories		**1,355**	(37,795)
Increase in biological assets		**(2,380)**	(6,219)
Decrease/(increase) in trade receivables		**2,145**	(492)
Decrease/(increase) in prepayments, deposits and other receivables		**(30,438)**	4,392
Increase/(decrease) in trade payables		**(67,171)**	63,499
Increase/(decrease) in other payables and accruals		**(5,240)**	54,918
Cash generated from operations		**515,371**	681,556
Interest paid		**(3,696)**	(586)
Hong Kong profits tax paid		**(51,391)**	(41,643)
Overseas taxes paid		**(31,069)**	(23,865)
Net cash flows from operating activities		**429,215**	615,462

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(425,996)**	(432,865)
Deposits paid for purchases of items of property, plant and equipment		**(104,163)**	(16,756)
Additions to prepaid land lease payments	15	**–**	(45,451)
Acquisition of subsidiaries	35	**4,988**	–
Acquisition of non-controlling interests		**–**	(10,008)
Loans to an associate		**(7,844)**	(5,272)
Decrease in restricted cash		**–**	71,057
Proceeds from disposal of items of property, plant and equipment		**1,217**	317
Increase in pledged deposits		**(1,216)**	(138)
Interest received		**1,766**	1,865
Decrease in other deposit		**–**	1,648
Net cash flows used in investing activities		**(531,248)**	(435,603)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	32	**–**	6,866
New bank loans		**286,000**	74,000
Repayment of bank loans		**(113,037)**	(21,383)
Capital element of finance lease payments		**(858)**	(157)
Interest element of finance lease payments		**(21)**	(18)
Capital contribution from a non-controlling shareholder of a subsidiary		**7,350**	–
Dividends paid		**(132,810)**	(130,766)
Dividends paid to a non-controlling shareholder of a subsidiary		**(1,147)**	(2,192)
Decrease in an amount due to a non-controlling shareholder of a subsidiary		**–**	(60)
Net cash flows from/(used in) financing activities		**45,477**	(73,710)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(56,556)**	106,149
Cash and cash equivalents at beginning of year		**421,144**	311,445
Effect of foreign exchange rate changes, net		**6,679**	3,550
CASH AND CASH EQUIVALENTS AT END OF YEAR		**371,267**	421,144
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**371,267**	421,144

STATEMENT
OF FINANCIAL POSITION

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	19	**447,639**	448,006
CURRENT ASSETS			
Prepayments	25	**256**	212
Due from a subsidiary	19	**493,948**	499,546
Cash and cash equivalents	26	**1,425**	849
Total current assets		**495,629**	500,607
CURRENT LIABILITIES			
Other payables and accruals	28	**1,293**	1,259
NET CURRENT ASSETS		**494,336**	499,348
Net assets		**941,975**	947,354
EQUITY			
Issued capital	32	**102,161**	102,161
Reserves	34(b)	**775,453**	775,723
Proposed final dividend	12	**64,361**	69,470
Total equity		**941,975**	947,354

Chung Wai Ping
Director

Leung Yiu Chun
Director

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 located at 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
- provision of poultry farm operations

2.1 BASIS OF PREPARATION AND PRIOR YEAR'S RESTATEMENTS

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and biological assets which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

During the current year, the Group further analysed the maturity profile of other payables and accruals included in current liabilities and considered it more appropriate to properly classify certain items due to be settled more than twelve months after the reporting period as non-current liabilities. Accordingly, certain comparative amounts of other payables and accruals have been reclassified and restated to conform with current year's presentation, and a third statement of financial position as at 1 January 2012 has been presented.

31 December 2013

2.1 BASIS OF PREPARATION AND PRIOR YEAR'S RESTATEMENTS (continued)

Impact on the consolidated statement of financial position:

	31 December 2012 HK$'000	1 January 2012 HK$'000
CURRENT LIABILITES		
Decrease in other payables and accruals	**(65,953)**	(47,971)
NON-CURRENT LIABILITES		
Increase in other payables and accruals	**65,953**	47,971

There was no impact on the net assets and equity of the Group.

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 2013. 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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. 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 resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

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

Other than as further explained below regarding the impact of HKFRS 10, HKFRS 12, HKFRS 13, amendments to HKAS 1 and certain amendments included in *Annual Improvements 2009-2011 Cycle*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

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

(a) HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC) – Int 12 *Consolidation – Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled. The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at 1 January 2013.

(b) HKFRS 12 sets out the disclosure requirements for subsidiaries, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities. Details of the disclosures for subsidiaries and associates are included in notes 19 and 20 to the financial statements.

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by HKFRS 13 for the fair value measurements of investment properties and biological assets are included in notes 16 and 21 to the financial statements.

(d) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. In addition, the Group has chosen to use the new title "statement of profit or loss" as introduced by amendments in these financial statements.

(e) *Annual Improvements 2009-2011 Cycle* issued in June 2012 sets out the amendments to a number of standards. 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 have had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

(i) HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and the change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(ii) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

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 9	*Financial Instruments*[4]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[4]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 January 2016
4 No mandatory effective date yet determined but is available for adoption

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

Investments in associates

An associate is an 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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 other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. 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.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 to measure 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 at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

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

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

Goodwill is initially measured at cost, being 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 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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 has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties and biological assets at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and goodwill), 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 of disposal, 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 statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset 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 statement of profit or loss 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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(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. 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 statement of profit or loss 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss 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 and installation 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 statement of profit or loss in the year in which they arise.

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

Intangible asset (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Trademark

Purchased trademark is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 17 years.

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 statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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 statement of profit or loss 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 statement of profit or loss 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 are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

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 of loans and receivables

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 and the loss arising from impairment are recognised in the statement of profit or loss.

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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 whether impairment exists individually 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.

The amount of any impairment loss identified 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 yet 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).

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

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

Subsequent measurement of loans and borrowings

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 statement of profit or loss 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 recognised in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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 statement of profit or loss.

Offsetting of financial instruments

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

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 measured at the market prices in the local market. 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 statement of profit or loss 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 statement of profit or loss.

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/jurisdictions 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 the initial recognition of goodwill or 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.

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries and 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 future 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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and bakery operations, 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 slaughtered 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;

(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 over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial assets;

(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 statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments; and

(g) government grant, where there is reasonable assurance that the government grant will be received and all attaching condition will be complied with, as further explained in the accounting policies for "government grants" above.

Share-based payments

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 payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. 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 statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting condition 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.

Other employee benefits

Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Hong Kong 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 statement of profit or loss 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 statement of profit or loss as they become payable in accordance with the rules of the Plans.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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 measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss 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 statement of profit or loss.

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.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

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 non-financial 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 provision of services, or from a change in the market demand for the product or service output of an asset, the expected usage of the asset, the expected physical wear and tear, the 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. Adjustment of 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. 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 of biological assets

The fair value of biological assets is determined at the end of each reporting period by independent valuers according to a market value assessment. The valuer has made reference to the market-determined prices, cultivation area, species, growing conditions, cost incurred and/or the professional valuation.

Impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess impairment. In determining whether a loan or receivable or a group of loans and 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.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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 2013 and 2012, and certain non-current asset information as at 31 December 2013 and 2012, by geographic area.

(a) Revenue from external customers

	2013 HK$'000	2012 HK$'000
Hong Kong	**3,006,322**	2,989,456
Mainland China	**1,314,131**	1,066,353
	4,320,453	4,055,809

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

(b) Non-current assets

	2013 HK$'000	2012 HK$'000
Hong Kong	**625,077**	599,228
Mainland China	**1,078,905**	820,086
	1,703,982	1,419,314

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

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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 and net invoiced value of goods sold, after deduction of relevant taxes and allowances for trade discounts.

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

	Group	
	2013	2012
	HK$'000	HK$'000
Revenue		
Restaurant and bakery operations	**4,084,487**	3,832,044
Sale of food	**143,571**	143,819
Poultry farm operations	**92,395**	79,946
	4,320,453	4,055,809
Other income and gains, net		
Bank interest income	**1,766**	1,865
Change in fair value less costs to sell of biological assets	**–**	1,845
Fair value gains on investment properties	**2,460**	3,850
Gain on disposal of items of property, plant and equipment, net	**388**	269
Government grants	**2,681**	896
Gross rental income from investment properties	**465**	495
Gross rental income from sublease of poultry market	**8,496**	9,639
Sponsorship income	**3,195**	4,670
Foreign exchange differences, net	**4,496**	–
Others	**2,652**	3,420
	26,599	26,949

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6. FINANCE COSTS

	Group 2013 HK$'000	2012 HK$'000
Interest on bank loans wholly repayable		
– Within five years	**3,684**	573
– Beyond five years	**12**	13
Interest on finance leases	**21**	18
Total interest expense on financial liabilities not at fair value through profit or loss	**3,717**	604

7. PROFIT BEFORE TAX

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

	Notes	2013 HK$'000	2012 HK$'000
Cost of inventories sold		**1,441,991**	1,355,177
Depreciation*	14	**269,647**	233,951
Amortisation of land lease payments*	15	**1,204**	1,049
Amortisation of an intangible asset	18	**52**	–
Gross rental income from investment properties	5	**(465)**	(495)
Employee benefit expense* (including directors' remuneration (note 8)):			
Salaries and bonuses		**1,090,260**	1,026,671
Retirement benefit scheme contributions		**54,457**	61,576
		1,144,717	1,088,247
Lease payments under operating leases in respect of land and buildings*:			
Minimum lease payments		**326,577**	279,484
Contingent rents		**13,813**	17,417
		340,390	296,901

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7. PROFIT BEFORE TAX (continued)

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

	Notes	2013 HK$'000	2012 HK$'000
Auditors' remuneration		**4,024**	3,514
Change in fair value less costs to sell of biological assets	21	**5,433**	(1,845)
Gain on disposal of items of property, plant and equipment, net		**(388)**	(269)
Write-off of items of property, plant and equipment		**10,308**	708
Loss on deemed disposal of an associate		**4**	–
Foreign exchange differences, net		**(4,496)**	769

* The cost of sales for the year amounting to HK$3,704,465,000 (2012: HK$3,424,213,000) included depreciation charges of HK$250,547,000 (2012: HK$191,279,000), amortisation of land lease payments of HK$1,204,000 (2012: HK$1,049,000), employee benefit expense of HK$1,060,442,000 (2012: HK$1,007,110,000) and operating lease rentals of HK$334,594,000 (2012: HK$290,637,000).

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	
	2013 HK$'000	2012 HK$'000
Fees	**1,984**	1,008
Other emoluments:		
Salaries	**3,447**	3,841
Discretionary bonuses	**256**	703
Retirement benefit scheme contributions	**85**	79
	3,788	4,623
	5,772	5,631

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8. DIRECTORS' REMUNERATION (continued)

2013	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive directors:					
Mr. Chung Wai Ping	–	196	16	10	222
Mr. Wong Ka Wing	465	231	–	15	711
Mr. Chung Ming Fat	439	231	–	15	685
Mr. Leung Yiu Chun	–	1,272	110	15	1,397
Ms. Wong Fun Ching	–	620	53	15	688
Mr. Ho Yuen Wah	–	897	77	15	989
	904	3,447	256	85	4,692
Non-executive directors:					
Mr. Fong Siu Kwong	180	–	–	–	180
Mr. Chan Yue Kwong, Michael	180	–	–	–	180
	360	–	–	–	360
Independent non-executive directors:					
Mr. Li Tze Leung	180	–	–	–	180
Professor Chan Chi Fai, Andrew	180	–	–	–	180
Mr. Mak Hing Keung, Thomas	180	–	–	–	180
Mr. Ng Yat Cheung	180	–	–	–	180
	720	–	–	–	720
	1,984	3,447	256	85	5,772

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8. DIRECTORS' REMUNERATION (continued)

2012	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive directors:					
Mr. Chung Wai Ping	–	168	34	9	211
Mr. Wong Ka Wing	–	614	115	14	743
Mr. Chung Ming Fat	–	567	96	14	677
Mr. Leung Yiu Chun	–	1,178	207	14	1,399
Ms. Wong Fun Ching	–	577	115	14	706
Mr. Ho Yuen Wah	–	737	136	14	887
	–	3,841	703	79	4,623
Non-executive directors:					
Mr. Fong Siu Kwong	168	–	–	–	168
Mr. Chan Yue Kwong, Michael	168	–	–	–	168
	336	–	–	–	336
Independent non-executive directors:					
Mr. Li Tze Leung	168	–	–	–	168
Professor Chan Chi Fai, Andrew	168	–	–	–	168
Mr. Mak Hing Keung, Thomas	168	–	–	–	168
Mr. Ng Yat Cheung	168	–	–	–	168
	672	–	–	–	672
	1,008	3,841	703	79	5,631

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

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2012: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2012: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Salaries	**2,246**	2,035
Discretionary bonuses	**319**	366
Retirement benefit scheme contributions	**45**	41
	2,610	2,442

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

	Number of employees	
	2013	2012
Nil to HK$1,000,000	**3**	3

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 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	
	2013	2012
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**35,932**	47,553
Underprovision/(overprovision) in prior years	**488**	(150)
Current – Mainland China	**26,228**	35,812
Deferred (note 22)	**1,992**	(5,995)
Total tax charge for the year	**64,640**	77,220

10. INCOME TAX (continued)

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 Corporation Income Tax.

A reconciliation of the tax expense applicable to profit before tax at the Hong Kong statutory tax rate to the tax expense at the Group's effective tax rate is as follows:

	Group			
	2013		2012	
	HK$'000	**%**	HK$'000	%
Profit before tax	**337,971**		381,208	
Tax at the Hong Kong statutory tax rate	**55,765**	**16.5**	62,899	16.5
Difference in tax rates applied for specific provinces in Mainland China	**6,253**		7,056	
Effect of withholding tax on 5% or 10% on the distributable profits of the Group's PRC subsidiaries	**1,684**		6,419	
Effect of deemed income tax arising from Mainland China	**1,093**		345	
Adjustments in respect of current tax of previous years	**488**		(150)	
Income not subject to tax	**(5,712)**		(3,383)	
Expenses not deductible for tax	**3,531**		2,693	
Tax losses not recognised	**1,528**		1,338	
Others	**10**		3	
Tax charge at the Group's effective rate	**64,640**	**19.1**	77,220	20.3

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2013 includes a loss of approximately HK$7,692,000 excluding the dividend income from its subsidiaries of HK$135,490,000 (2012: HK$7,529,000 excluding the dividend income from its subsidiaries of HK$140,700,000) which has been dealt with in the financial statements of the Company.

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12. DIVIDENDS

	Group 2013 HK$'000	2012 HK$'000
Additional 2011 final – HK6.60 cents	**–**	285
Interim – HK6.20 cents (2012: HK6.20 cents) per ordinary share	**63,340**	63,340
Proposed final – HK6.30 cents (2012: HK6.80 cents) per ordinary share	**64,361**	69,470
	127,701	133,095

Actual 2011 final dividend paid was HK$67,426,000, of which HK$285,000 was paid for shares issued for employee share options exercised subsequent to 31 December 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 1,021,611,000 (2012: 1,020,383,869) in issue during the year.

The calculation of diluted 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 1,021,611,000 (2012: 1,020,383,869), as used basic earnings per share calculation, and the weighted average number of ordinary shares of 3,062,111 (2012: 2,742,352) assumed to have been issued at no consideration on the deemed exercise of all share options into ordinary shares.

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13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

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

	2013 HK$'000	2012 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**274,204**	299,199

	Number of shares	
	2013	2012
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,021,611,000**	1,020,383,869
Effect of dilution – weighted average number of ordinary shares:		
Share options	**3,062,111**	2,742,352
	1,024,673,111	1,023,126,221

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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 2013						
Cost:						
At 1 January 2013	**499,056**	**1,174,160**	**702,053**	**17,922**	**16,885**	**2,410,076**
Additions	**96**	**211,398**	**129,003**	**3,028**	**102,423**	**445,948**
Acquisition of subsidiaries (note 35)	**–**	**14,465**	**4,691**	**–**	**151**	**19,307**
Transfers	**2,067**	**1,953**	**5,800**	**–**	**(9,820)**	**–**
Disposals	**–**	**–**	**(709)**	**(4,317)**	**–**	**(5,026)**
Write-off	**(7,166)**	**(43,895)**	**(21,210)**	**–**	**–**	**(72,271)**
Exchange realignment	**4,332**	**11,738**	**7,949**	**127**	**322**	**24,468**
At 31 December 2013	**498,385**	**1,369,819**	**827,577**	**16,760**	**109,961**	**2,822,502**
Accumulated depreciation:						
At 1 January 2013	**119,966**	**614,485**	**385,175**	**12,855**	**–**	**1,132,481**
Provided during the year	**10,810**	**143,365**	**113,103**	**2,369**	**–**	**269,647**
Disposals	**–**	**–**	**(440)**	**(3,757)**	**–**	**(4,197)**
Write-off	**(1,075)**	**(41,230)**	**(19,658)**	**–**	**–**	**(61,963)**
Exchange realignment	**659**	**5,816**	**4,092**	**89**	**–**	**10,656**
At 31 December 2013	**130,360**	**722,436**	**482,272**	**11,556**	**–**	**1,346,624**
Net book value:						
At 31 December 2013	**368,025**	**647,383**	**345,305**	**5,204**	**109,961**	**1,475,878**
31 December 2012						
Cost:						
At 1 January 2012	449,747	902,475	535,557	17,791	33,550	1,939,120
Additions	46,228	227,670	158,038	1,395	38,035	471,366
Transfers	–	48,659	6,106	–	(54,765)	–
Disposals	–	–	(46)	(739)	–	(785)
Write-off	–	(12,580)	(2,718)	(630)	–	(15,928)
Exchange realignment	3,081	7,936	5,116	105	65	16,303
At 31 December 2012	499,056	1,174,160	702,053	17,922	16,885	2,410,076
Accumulated depreciation:						
At 1 January 2012	109,163	494,369	292,759	11,601	–	907,892
Provided during the year	10,340	128,922	92,262	2,427	–	233,951
Disposals	–	–	(21)	(716)	–	(737)
Write-off	–	(12,496)	(2,208)	(516)	–	(15,220)
Exchange realignment	463	3,690	2,383	59	–	6,595
At 31 December 2012	119,966	614,485	385,175	12,855	–	1,132,481
Net book value:						
At 31 December 2012	379,090	559,675	316,878	5,067	16,885	1,277,595

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's lands included in property, plant and equipment with the net carrying amount of HK$79,500,000 (2012: HK$81,044,000) are situated in Hong Kong and are held under the following lease terms:

	2013 **HK$'000**	2012 HK$'000
– Long term leases	**26,398**	26,429
– Medium term leases	**53,102**	54,615
	79,500	81,044

At 31 December 2013, the net carrying amounts of the Group's property, plant and equipment held under finance leases included in furniture, fixtures and equipment amounted to HK$998,000 (2012: HK$642,000).

As at 31 December 2013, the leasehold land and buildings with the net carrying amount of approximately HK$40,037,000 (2012: HK$20,006,000) situated in Hong Kong were pledged to secure the banking facilities granted to the Group (note 29).

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2013 **HK$'000**	2012 HK$'000
Carrying amount at 1 January	**64,520**	19,723
Additions	**–**	45,451
Recognised during the year	**(1,204)**	(1,049)
Exchange realignment	**1,380**	395
Carrying amount at 31 December	**64,696**	64,520
Current portion included in prepayments, deposits and other receivables (note 25)	**(1,216)**	(1,190)
Non-current portion	**63,480**	63,330

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

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16. INVESTMENT PROPERTIES

	Group	
	2013	2012
	HK$'000	HK$'000
Carrying amount at 1 January	**12,390**	8,540
Net gain from a fair value adjustment	**2,460**	3,850
Carrying amount at 31 December	**14,850**	12,390

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

	2013	2012
	HK$'000	HK$'000
Long term leases	**12,100**	9,900
Medium term leases	**2,750**	2,490
	14,850	12,390

The Group's investment properties consist of 11 car parking spaces and one commercial property in Hong Kong. The directors of the Company have determined that the investment properties consist of two classes of asset, i.e., car parking spaces and commercial property, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2013 based on valuations performed by DTZ Debenham Tie Leung Limited, independent professionally qualified valuer, at HK$14,850,000. Each year, the Group would appoint external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group would have discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

The investment properties were leased to third parties under operating lease arrangements, further details of which are included in note 39(a) to the financial statements.

At 31 December 2013, the Group's investment properties with a total carrying amount of HK$12,650,000 (2012: HK$10,590,000) were pledged to secure the banking facilities granted to the Group (note 29).

16. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

All investment properties were classified under Level 3 in the fair value hierarchy. During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3. The Group has assessed that the highest and best use of its properties did not differ from their existing use. Details of fair value hierarchy are set out in note 2.4 to the financial statements.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Car parking spaces HK$'000	Commercial property HK$'000	Total HK$'000
Carrying amount at 1 January 2013	9,900	2,490	12,390
Net gain from a fair value adjustment recognised in profit or loss	2,200	260	2,460
Carrying amount at 31 December 2013	12,100	2,750	14,850

Below is a summary of the valuation technique used and the key inputs to the valuation of investment properties:

	Valuation technique	Significant unobservable inputs	Value
Car parking spaces	Income capitalisation approach	Estimated rental value (per car parking space per month)	HK$4,000
		Capitalisation rate	4.5%
Commercial property	Income capitalisation approach	Estimated rental value (per sq.ft. per month)	HK$15
		Capitalisation rate	3.0%

A significant increase/decrease in the estimated rental value would result in a significant increase/decrease in the fair value of the investment properties. A significant increase/decrease in the capitalisation rate would result in a significant decrease/increase in the fair value of the investment properties.

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17. GOODWILL

	Group 2013 HK$'000	2012 HK$'000
Cost at 1 January	**38,569**	38,239
Acquisition of subsidiaries (note 35)	**1,879**	–
Exchange realignment	**356**	330
Cost and net carrying amount at 31 December	**40,804**	38,569

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 amount of goodwill allocated to each of the Cash-generating Units is as follows:

	Group 2013 HK$'000	2012 HK$'000
Restaurant operations	**16,766**	16,766
Bakery operations	**7,072**	5,193
Property investment	**61**	61
Poultry farm operations	**16,905**	16,549
	40,804	38,569

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 8.5% (2012: 8.5%), and the cash flows beyond the five-year period are extrapolated using an average growth rate of 2% (2012: 2%).

Assumptions were used in the value in use calculation of the Cash-generating Units for the years ended 31 December 2013 and 2012. 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, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

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18. INTANGIBLE ASSET

	Group Trademark 2013 HK$'000
Acquisition of subsidiaries (note 35)	**1,488**
Amortisation provided during the year	**(52)**
Exchange realignment	**15**
Net carrying amount at 31 December	**1,451**

19. INVESTMENTS IN SUBSIDIARIES

	Company 2013 HK$'000	2012 HK$'000
Unlisted shares, at cost	**428,382**	428,382
Capital contribution in respect of employee share-based compensation	**19,257**	19,624
	447,639	448,006

The amount due from a subsidiary included in the Company's current assets of approximately HK$493,948,000 (2012: HK$499,546,000) is unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2013	2012	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

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19. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2013	2012	Principal activities
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%	Investment holding, restaurant operations and provision of food catering services
Sky Castle Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding, restaurant operations and provision of food catering services
Sky Fine International Industrial Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding, restaurant operations and provision of food catering services
Sky Great Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding, 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

19. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2013	2012	Principal activities
Sky Triumph International Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding, 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%	Investment holding, 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
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

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19. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2013	2012	Principal activities
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%	Investment holding
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, restaurant operations and provision of food catering services
東莞萬好食品有限公司*@	People's Republic of China ("PRC")/ Mainland China	HK$322,100,000	**100%**	100%	Production, sale and distribution of food products

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19. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2013	2012	Principal activities
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
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

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19. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2013	2012	Principal activities
Miracle Time Enterprise Limited (note (b))	Hong Kong	Ordinary HK$1,000,000	**100%**	100%	Restaurant operations and provision of food catering services
Skybest International Investment Enterprise Limited	Hong Kong	Ordinary HK$10,000	**100%**	100%	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
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, restaurant operations and provision of food catering services
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

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19. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2013	2012	Principal activities
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, restaurant operations and provision of food catering services
Sky Trend Holdings Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding, restaurant operations and provision of food catering services
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
東莞天景稻香飲食有限公司*@	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
Tai Cheong Holdings Group Limited@ (note (b))	British Virgin Islands	Ordinary US$10,000	**100%**	100%	Investment holding

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19. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2013	2012	Principal activities
Tai Cheong Bakery Company Limited (note (b))	Hong Kong	Ordinary HK$300,000	**100%**	100%	Production and retail of bakery products
Tai Cheong (TM) Co., Limited (note (b))	Hong Kong	Ordinary HK$10,000	**100%**	100%	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 Renminbi ("RMB") 3,000,000	**70%**	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%**	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%**	70%	Production and sale of livestock
廣西萬象城稻香飲食有限公司*@	PRC/Mainland China	HK$18,000,000	**100%**	100%	Restaurant operations and provision of food catering services
瀋陽迎喜餐飲有限公司*@	PRC/Mainland China	HK$18,000,000	**100%**	100%	Restaurant operations and provision of food catering services

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19. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2013	2012	Principal activities
武漢漢街稻香飲食有限公司*@	PRC/Mainland China	HK$18,000,000	**100%**	100%	Restaurant operations and provision of food catering services
廣州東匯城稻香飲食有限公司*@	PRC/Mainland China	HK$12,400,000	**100%**	100%	Restaurant operations and provision of food catering services
上海天浩迎喜餐飲有限公司*@	PRC/Mainland China	HK$18,000,000	**100%**	–	Restaurant operations and provision of food catering services
佛山南海天勝稻香飲食有限公司*@	PRC/Mainland China	HK$18,000,000	**100%**	–	Restaurant operations and provision of food catering services
Keen Port International Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
中山健港稻香飲食有限公司*@	PRC/Mainland China	HK$18,000,000	**100%**	–	Restaurant operations and provision of food catering services
Sky Joy Enterprise Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
鶴山天欣稻香飲食有限公司*@	PRC/Mainland China	RMB24,000,000	**100%**	–	Restaurant operations and provision of food catering services

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19. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2013	2012	Principal activities
Baker Limited (note (a))	Hong Kong	Ordinary HK$10,000	**60%**	–	Investment holding
豐王樂食品(深圳)有限公司*@ ACT Foods (Shenzhen) Company Limited (note (a))	PRC/Mainland China	RMB45,000,000	**60%**	–	Production and retail of bakery products
Ringer Hut Hong Kong Co., Limited	Hong Kong	Ordinary HK$15,000,000	**51%**	–	Restaurant operations and provision of food catering services

@ 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.

Notes:

(a) During the year, the Group acquired an additional 20% equity interest in Baker Limited for a consideration of HK$2,000. Upon completion, Baker Limited and its subsidiary, ACT Foods (Shenzhen) Company Limited (collectively, the "Baker Group") became 60% owned subsidiaries of the Group and its results are consolidated into the Group thereafter. Further details of the transaction are included in note 35 to the financial statements.

(b) In the prior year, the Group acquired additional 20% equity interests in both Miracle Time Enterprise Limited ("Miracle Time") and Tai Cheong Holdings Group Limited ("Tai Cheong"). Miracle Time and Tai Cheong and its subsidiaries became 100% owned subsidiaries of the Group thereafter. Further details of the transaction are included in note 36 to the financial statements.

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

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20. INVESTMENTS IN ASSOCIATES

	Group 2013 HK$'000	Group 2012 HK$'000
Share of net assets	**1,281**	1,283
Goodwill on acquisition	**122**	122
	1,403	1,405
Loans to an associate	**–**	7,334
Provision for impairment	**(152)**	(152)
	1,251	8,587

The loans to an associate were unsecured, interest-free and had 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 2013	2012	Principal activities
Tin Park Limited	Ordinary shares of HK$1 each	Hong Kong	**39%**	39%	Inactive
World Wider International Limited	Ordinary shares of HK$1 each	Hong Kong	**39%**	39%	Inactive
Baker Limited (note)	Ordinary shares of HK$1 each	Hong Kong	**–**	40%	Investment holding

Note:

During the year, the Group acquired an additional 20% equity interest in Baker Limited for a consideration of HK$2,000. Upon completion, the Baker Group became 60% owned subsidiaries of the Group and its results are consolidated into the Group thereafter. Further details of the transaction are included in note 35 to the financial statements.

The above associates were indirectly held by the Company.

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20. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2013 **HK$'000**	2012 HK$'000
Share of the associates' losses for the year	**(2)**	(1)
Share of the associates' total comprehensive losses	**(2)**	(1)
Aggregate carrying amount of the Group's investments in the associates	**1,251**	1,253

21. 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
At 1 January 2012	1,566	1,577	3,107	2,803	3,019	12,072
Increase due to purchases	988	93	117,610	–	6,861	125,552
Additional costs incurred	5,549	6,084	26,574	5,287	11,295	54,789
Decrease due to retirement and deaths	(222)	(286)	(417)	–	(642)	(1,567)
Decrease due to sales	(766)	(3,015)	(143,215)	(748)	(16,833)	(164,577)
Transfers	(3,839)	3,867	(28)	(5,312)	5,312	–
Transfer to inventories	(258)	(7,720)	–	–	–	(7,978)
Change in fair value less costs to sell	–	–	1,997	–	(152)	1,845
Exchange realignment	32	33	74	57	60	256
At 31 December 2012 and 1 January 2013	3,050	633	5,702	2,087	8,920	20,392
Increase due to purchases	742	2,087	109,348	–	795	112,972
Additional costs incurred	3,983	1,865	37,660	4,232	15,634	63,374
Decrease due to retirement and deaths	(313)	(427)	(360)	(3)	(1,593)	(2,696)
Decrease due to sales	(2,115)	(3,808)	(145,512)	(783)	(16,956)	(169,174)
Transfers	(3,219)	3,199	20	(3,473)	3,473	–
Transfer to inventories	–	(2,096)	–	–	–	(2,096)
Change in fair value less costs to sell	–	–	(578)	–	(4,855)	(5,433)
Exchange realignment	66	14	118	45	141	384
At 31 December 2013	2,194	1,467	6,398	2,105	5,559	17,723

21. BIOLOGICAL ASSETS (continued)

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

	2013	2012
Immature chicken breeders	**42,538**	59,871
Mature chicken breeders	**32,990**	18,748
Broilers	**300,373**	182,180
Pig breeders	**847**	1,013
Pig commodities	**5,565**	8,440
	382,313	270,252

Analysed for reporting purposes as:

	2013 HK$'000	2012 HK$'000
Current assets	**15,618**	18,305
Non-current assets	**2,105**	2,087
At the end of the reporting period	**17,723**	20,392

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 breeders are primarily bred for further growth into mature breeders. The breeder hogs are primarily held to produce agricultural produce. Breeder hogs are classified as non-current assets.

In accordance with the valuation report issued by Stern Appraisal 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, cost incurred and/or the professional valuation. Each year, the Group would appoint external valuer to be responsible for the external valuations of the Group's biological assets. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group would have discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

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21. BIOLOGICAL ASSETS (continued)

Fair value hierarchy

The biological assets were classified under Level 3 in the fair value hierarchy. During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3. The Group has assessed that the highest and best use of its biological assets did not differ from their existing use. Details of fair value hierarchy are set out in note 2.4 to the financial statements.

Below is a summary of the valuation technique used and the key input to the valuation of biological assets:

	Valuation technique	Significant unobservable input	Range
Biological assets	Market approach	Estimated selling price (per kg)	RMB16 to RMB2,760

A significant increase/decrease in the estimated selling price would result in a significant increase/decrease in the fair value of the biological assets.

22. 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 2012	38,470	25,012	63,482
Deferred tax credited to the statement of profit or loss during the year (note 10)	4,472	9,109	13,581
Exchange differences	130	111	241
Gross deferred tax assets at 31 December 2012 and 1 January 2013	43,072	34,232	77,304
Deferred tax charged to the statement of profit or loss during the year (note 10)	(3,676)	(472)	(4,148)
Exchange differences	141	121	262
Gross deferred tax assets at 31 December 2013	39,537	33,881	73,418

Deferred tax liabilities

	Revaluation of investment properties HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Withholding Tax HK$'000	Total HK$'000
At 1 January 2012	70	16,132	–	16,202
Deferred tax charged/(credited) to the statement of profit of loss during the year (note 10)	(70)	1,237	6,419	7,586
Exchange differences	–	93	–	93
Gross deferred tax liabilities at 31 December 2012 and 1 January 2013	–	17,462	6,419	23,881
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	–	(3,840)	1,684	(2,156)
Acquisition of subsidiaries (note 35)	–	301	–	301
Exchange differences	–	30	–	30
Gross deferred tax liabilities at 31 December 2013	–	13,953	8,103	22,056

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22. 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:

	2013 HK$'000	2012 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**71,731**	66,621
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(20,369)**	(13,198)
	51,362	53,423

Deferred tax assets have not been recognised in respect of tax losses of HK$77,674,000 (2012: HK$68,413,000) as it is currently not considered probable that taxable profits will be available against which such tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprise established in Mainland China. The requirement is effective from 1 January 2008 and applies to earning after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earning generated from 1 January 2008. At 31 December 2013, a deferred tax of HK$1,684,000 (2012: HK$6,419,000) 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.

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

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23. INVENTORIES

	Group 2013 HK$'000	2012 HK$'000
Food and beverages, and other operating items for restaurant and bakery operations	**166,551**	163,101
Frozen poultry farm products	**3,401**	4,910
Raw materials for the production of animal feeds	**4,861**	5,448
	174,813	173,459

24. 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 individually nor collectively considered to be impaired, is as follows:

	Group 2013 HK$'000	2012 HK$'000
Neither past due nor impaired	**11,802**	12,580
Less than 1 month past due	**8,236**	6,285
1 to 3 months past due	**4,135**	5,117
Over 3 months past due	**4,023**	3,341
	28,196	27,323

Receivables that were neither past due nor impaired mainly relate 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.

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25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**40,940**	33,079	**256**	212
Prepaid land lease payments (note 15)	**1,216**	1,190	**–**	–
Deposits and other receivables	**70,440**	44,921	**–**	–
	112,596	79,190	**256**	212

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

26. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**371,267**	421,144	**1,425**	849
Time deposits	**13,268**	12,052	**–**	–
	384,535	433,196	**1,425**	849
Less:				
Pledged deposits with original maturity over 3 months but within 1 year for short term bank borrowings	**(13,268)**	(12,052)	**–**	–
	371,267	421,144	**1,425**	849

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to HK$210,273,000 (2012: HK$250,698,000). 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.

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27. 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	
	2013	2012
	HK$'000	HK$'000
Within 1 month	**164,506**	195,266
1 to 2 months	**8,402**	28,828
2 to 3 months	**4,440**	7,030
Over 3 months	**5,299**	13,347
	182,647	244,471

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

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accrued rental	**66,288**	48,141	**–**	–
Advances from customers	**72,967**	53,394	**–**	–
Accrued payroll	**94,753**	83,959	**849**	835
Other payables and accruals	**121,366**	167,922	**444**	424
Deferred revenue	**2,379**	2,583	**–**	–
	357,753	355,999	**1,293**	1,259
Less: Portion classified as non-current liabilities	**(82,394)**	(65,953)	**–**	–
Portion classified as current liabilities	**275,359**	290,046	**1,293**	1,259

Other payables are non-interest-bearing.

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29. INTEREST-BEARING BANK BORROWINGS

Group	2013 Effective contractual interest rate (%)	2013 Maturity	2013 HK$'000	2012 Effective contractual interest rate (%)	2012 Maturity	2012 HK$'000
Current						
– Bank loans, secured	**0.5–1.7**	**2014**	**161,300**	0.4–1.2	2013	74,000
– Current portion of long term bank loan, secured	**1.1–2.7**	**2014**	**20,599**	3.0	2013	61
– Long term bank loans which contain a repayment on demand clause, secured	**1.8–2.7**	**2014–2020**	**1,233**	3.0	2013-2020	424
			183,132			74,485
Non-current						
– Bank loans, secured	**1.1**	**2014–2018**	**68,333**	–	–	–
			251,465			74,485

Term loans of the Group with carrying amount of HK$137,132,000 (2012: HK$74,485,000) containing repayment on demand clause have been classified in total as current liabilities in accordance with HK Interpretation 5 *Presentation of Financial Statement – 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$1,233,000 (2012: HK$424,000) 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:

Analysed into:	2013 HK$'000	2012 HK$'000
Bank loans repayable:		
Within one year	**181,899**	74,061
In the second year	**20,601**	62
In the third to fifth years, inclusive	**48,870**	198
Beyond five years	**95**	164
	251,465	74,485

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 carrying value at the end of the reporting period of HK$40,037,000 (2012: HK$20,006,000);

(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$12,650,000 (2012: HK$10,590,000); and

(iii) the pledge of certain of the Group's time deposits amounting to HK$13,268,000 (2012: HK$12,052,000).

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30. FINANCE LEASE PAYABLES

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

At 31 December 2013, 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	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**220**	327	**214**	313
In the second year	**235**	240	**214**	230
In the third to fifth years, inclusive	**613**	251	**570**	244
Total minimum finance lease payments	**1,068**	818	**998**	787
Future finance charges	**(70)**	(31)		
Total net finance lease payables	**998**	787		
Portion classified as current liabilities	**(214)**	(313)		
Non-current portion	**784**	474		

The above finance leases are denominated in Hong Kong dollars and bear interest at rates ranging from 3.0% to 5.4% (2012: 3.0% to 5.4%) per annum.

31. DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The amounts due to non-controlling shareholders of subsidiaries are unsecured, interest-free and not repayable within 1 year.

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32. SHARE CAPITAL

	Company 2013 HK$'000	2012 HK$'000
Authorised:		
23,400,000,000 (2012: 23,400,000,000) ordinary shares of HK$0.10 each	**2,340,000**	2,340,000
Issued and fully paid:		
1,021,611,000 (2012: 1,021,611,000) ordinary shares of HK$0.10 each	**102,161**	102,161

A summary of the transactions during the years ended 31 December 2012 and 2013 for the movements 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 2012	1,017,293,000	101,729	320,471	422,200
Share options exercised (note)	4,318,000	432	14,749	15,181
At 31 December 2012, 1 January 2013 and 31 December 2013	1,021,611,000	102,161	335,220	437,381

Note:

In the prior year, the subscription rights attaching to 4,318,000 share options were exercised at a subscription price of HK$1.59 per share (note 33), resulting in the issue of 4,318,000 ordinary shares of HK$0.1 each for a total cash consideration of approximately HK$6,866,000 and additional share capital of HK$432,000 and share premium of HK$6,434,000 (before share issue expenses). In addition, the attributable share option reserve of HK$8,315,000 was transferred to the share premium account upon the exercise of the share options.

33. 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; and (ii) the exercise price of the share options and 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.

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.

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33. SHARE OPTION SCHEMES (continued)

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 vested in the following manner:

Vesting period 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.

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

	2013		2012	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**1.59**	**4,530**	1.59	9,198
Exercised during the year	**1.59**	**–**	1.59	(4,318)
Forfeited during the year	**1.59**	**(190)**	1.59	(350)
At 31 December	**1.59**	**4,340**	1.59	4,530

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2012 was HK$4.12 per share.

33. SHARE OPTION SCHEMES (continued)

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
2013	4,340	1.59	29 June 2007 to 28 June 2017
2012	4,530	1.59	29 June 2007 to 28 June 2017

No share options were granted during the years and forfeited share options with an aggregate carrying amount of HK$367,000 (2012: HK$675,000) were transferred from share option reserve to retained profits during the year.

At 31 December 2013, the Company had 4,340,000 (2012: 4,530,000) share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 0.42% 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 4,340,000 (2012: 4,530,000) additional ordinary shares of the Company and additional share capital of HK$434,000 (2012: HK$453,000) and share premium of HK$6,467,000 (2012: HK$6,750,000) (before share issue expenses).

No share options under the Share Option Scheme were granted during the year (2012: Nil).

At the date of approval of these financial statements, the Company had 4,190,000 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 0.41% of the Company's shares in issue as at that date.

34. 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 42 to 43 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.

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34. RESERVES (continued)

(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 2012		320,471	17,720	9	427,527	4,161	769,888
Profit and total comprehensive income for the year	11	–	–	–	–	133,171	133,171
Issue of shares	32	14,749	(8,315)	–	–	–	6,434
Transfer of share option reserve upon the forfeiture of share options	33	–	(675)	–	–	–	(675)
Additional 2011 dividend	12	–	–	–	–	(285)	(285)
Interim 2012 dividend	12	–	–	–	–	(63,340)	(63,340)
Proposed final 2012 dividend	12	–	–	–	–	(69,470)	(69,470)
At 31 December 2012 and 1 January 2013		**335,220**	**8,730**	**9**	**427,527**	**4,237**	**775,723**
Profit and total comprehensive income for the year	11	**–**	**–**	**–**	**–**	**127,798**	**127,798**
Transfer of share option reserve upon the forfeiture of share options	33	**–**	**(367)**	**–**	**–**	**–**	**(367)**
Interim 2013 dividend	12	**–**	**–**	**–**	**–**	**(63,340)**	**(63,340)**
Proposed final 2013 dividend	12	**–**	**–**	**–**	**–**	**(64,361)**	**(64,361)**
At 31 December 2013		**335,220**	**8,363**	**9**	**427,527**	**4,334**	**775,453**

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.

35. BUSINESS COMBINATION

During the year, the Group entered into an agreement with the former controlling shareholder of Baker Limited to acquire an additional 20% equity interest in Baker Limited for a consideration of HK$2,000 (the "Acquisition"). The Acquisition was completed on 29 May 2013. Baker Limited, together with its subsidiary (collectively the "Baker Group") principally engaged in bakery operations in Mainland China. In the opinion of the directors, the Acquisition enables the Group to expand the bakery operation into Mainland China. Upon completion, the Baker Group became 60%-owned subsidiaries of the Group and its results are consolidated into the Group thereafter. The previously held 40% equity interest in the Baker Group was remeasured at its nil acquisition date fair value and the resulting loss on deemed disposal of an associate of HK$4,000 was recognised in other expenses.

The Group has elected to measure the non-controlling interests in the Baker Group at the non-controlling interests' proportionate share of the Baker Group's identifiable net assets.

35. BUSINESS COMBINATION (continued)

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

	Notes	Fair value recognised on acquisition HK$'000
Property, plant and equipment	14	19,307
Intangible asset	18	1,488
Rental deposits		250
Inventories		1,660
Trade receivables		2,306
Prepayments, deposits and other receivables		2,252
Cash and bank balances		4,990
Trade payables		(2,187)
Other payables and accruals		(2,192)
Interest-bearing bank borrowings		(4,017)
Due to the Group		(15,178)
Due to a non-controlling shareholder of a subsidiary		(11,507)
Deferred tax liabilities	22	(301)
Total identifiable net liabilities at fair value		(3,129)
Non-controlling interests		1,252
Goodwill on acquisition	17	1,879
Satisfied by cash		2

The fair values of the trade receivables and other receivables as at the date of the Acquisition amounted to HK$2,306,000 and HK$1,306,000, respectively. The gross contractual amounts of trade receivables and other receivables were HK$2,306,000 and HK$1,306,000, respectively, which were expected to be collectible.

None of the goodwill recognised is expected to be deductible for income tax purposes.

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

	HK$'000
Cash consideration	(2)
Cash and bank balances acquired	4,990
Net inflow of cash and cash equivalents included in cash flows from investing activities	4,988

Since the Acquisition, the Baker Group contributed HK$13,021,000 to the Group's revenue and reduced HK$5,797,000 from the consolidated profit for the year ended 31 December 2013.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been HK$4,327,973,000 and HK$267,814,000, respectively.

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36. ACQUISITIONS OF ADDITIONAL INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL

(a) On 31 October 2012, the Group acquired an additional 20% of the issued shares of Miracle Time at a purchase consideration of HK$6,308,000. The carrying amount of the non-controlling interests in Miracle Time on the date of acquisition was HK$386,000. The Group recognised a decrease in non-controlling interest of HK$386,000 and a decrease in equity attributable to owners of the parent of HK$5,922,000.

(b) On 31 December 2012, the Group acquired an additional 20% of the issued shares of Tai Cheong at a purchase consideration of HK$3,700,000. The carrying amount of the non-controlling interests in Tai Cheong on the date of acquisition was HK$900,000. The Group recognised a decrease in non-controlling interest of HK$900,000 and a decrease in equity attributable to owners of the parent of HK$2,800,000.

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The Group had the following major non-cash transactions during the year:

(a) 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$2,127,000 (2012: HK$353,000) for such obligation.

(b) 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$1,069,000 (2012: Nil).

38. CONTINGENT LIABILITIES

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

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank guarantees given in lieu of utility and property rental deposits	**27,631**	28,039	**–**	–
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**404,000**	220,800

As at 31 December 2013, 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$251,041,000 (2012: HK$74,000,000).

39. 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 2013, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2013 **HK$'000**	2012 HK$'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 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2013 **HK$'000**	2012 HK$'000
Within one year	**301,838**	227,589
In the second to fifth years, inclusive	**594,254**	458,835
Beyond five years	**305,088**	270,563
	1,201,180	956,987

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 operations 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.

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40. COMMITMENTS

In addition to the operating lease commitments detailed in note 39(b) above, the Group had the following capital commitments at the end of the reporting period:

	2013 **HK$'000**	2012 HK$'000
Contracted, but not provided for:		
Property, plant and equipment	**39,003**	12,485
Building	**60,341**	74,993
	99,344	87,478

At the end of the reporting period, the Company had no significant commitments (2012: Nil).

41. RELATED PARTY TRANSACTION

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

	2013 **HK$'000**	2012 HK$'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 (2012: HK$4,000).

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

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42. 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

	2013 HK$'000	2012 HK$'000
Loans and receivables:		
Loan to an associate (note 20)	–	7,334
Rental deposits	**108,355**	101,043
Trade receivables	**28,196**	27,323
Financial assets included in prepayments, deposits and other receivables (note 25)	**70,440**	44,921
Pledged deposits	**13,268**	12,052
Cash and cash equivalents	**371,267**	421,144
	591,526	613,817

Financial liabilities

	2013 HK$'000	2012 HK$'000
Financial liabilities at amortised cost:		
Trade payables	**182,647**	244,471
Financial liabilities included in other payables and accruals	**341,386**	340,635
Interest-bearing bank borrowings	**251,465**	74,485
Finance lease payables	**998**	787
Due to non-controlling shareholders of subsidiaries	**23,381**	11,623
	799,877	672,001

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42. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

Financial assets

	2013 HK$'000	2012 HK$'000
Loans and receivables:		
Due from a subsidiary	**493,948**	499,546
Cash and cash equivalents	**1,425**	849
	495,373	500,395

Financial liabilities

	2013 HK$'000	2012 HK$'000
Financial liabilities at amortised cost:		
Other payables and accruals	**1,293**	1,259

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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:

The fair values of trade receivables, financial assets included in prepayments, deposits and other receivables, pledged deposits, cash and cash equivalents, trade payables, the current portions of financial liabilities included in other payables and accruals, interest-bearing bank borrowings and finance lease payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of rental deposits, loans to an associate, the non-current portions of financial liabilities included in other payables and accruals, 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 with similar terms, credit risk and remaining maturities.

44. 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 2013 and 2012 would have decreased/increased the Group's profit before tax by HK$1,257,000 and HK$372,000, 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 restaurant and bakery 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 domestic and international economic and political changes, 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.

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44. 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

	2013			
	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	–	182,647	–	182,647
Other payables and accruals	–	273,680	67,706	341,386
Interest-bearing bank borrowings (note)	137,312	47,496	70,558	255,366
Finance lease payables	–	220	848	1,068
Due to non-controlling shareholders of subsidiaries	–	–	23,381	23,381
	137,312	504,043	162,493	803,848

	2012			
	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	–	244,471	–	244,471
Other payables and accruals	–	289,664	50,971	340,635
Interest-bearing bank borrowings (note)	74,698	–	–	74,698
Finance lease payables	–	327	491	818
Due to non-controlling shareholders of subsidiaries	–	–	11,623	11,623
	74,698	534,462	63,085	672,245

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

	Less than 1 year	
	2013	2012
	HK$'000	HK$'000
Other payables and accruals	**1,293**	1,259

Note:

Included in the above interest-bearing bank borrowings are term loans with a carrying amount of HK$137,132,000 (2012: HK$74,485,000). 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 within 12 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 those loans as at the end of the reporting period, based on the contractual undiscounted payments and ignoring the effect of any repayment on demand clauses 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 2013	183,512	71,739	115	255,366
As at 31 December 2012	74,239	290	169	74,698

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions 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 2013 and 31 December 2012.

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44. 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

	2013 HK$'000	2012 HK$'000
Total borrowings	**252,463**	75,272
Total equity attributable to owners of the parent	**1,718,086**	1,558,084
Gearing ratio	**14.7%**	4.8%

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2014.

PRINCIPAL PROPERTIES HELD
FOR INVESTMENT PURPOSES

Year ended 31 December 2013

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

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				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**4,320,453**	4,055,809	3,576,099	2,937,226	2,610,410
Cost of sales	**(3,704,465)**	(3,424,213)	(3,016,631)	(2,491,576)	(2,208,749)
Gross profit	**615,988**	631,596	559,468	445,650	401,661
Other income and gains, net	**26,599**	26,949	33,395	18,602	13,605
Selling and distribution expenses	**(98,185)**	(85,174)	(92,781)	(67,557)	(49,565)
Administrative expenses	**(186,967)**	(190,850)	(169,088)	(117,957)	(107,377)
Other expenses	**(15,745)**	(708)	(8,682)	(914)	(1,096)
Finance costs	**(3,717)**	(604)	(461)	(495)	(914)
Share of profits and losses of associates, net	**(2)**	(1)	–	–	175
PROFIT BEFORE TAX	**337,971**	381,208	321,851	277,329	256,489
Income tax expense	**(64,640)**	(77,220)	(63,094)	(55,590)	(46,136)
PROFIT FOR THE YEAR	**273,331**	303,988	258,757	221,739	210,353
Attributable to:					
Owners of the parent	**274,204**	299,199	254,956	219,386	208,530
Non-controlling interests	**(873)**	4,789	3,801	2,353	1,823
	273,331	303,988	258,757	221,739	210,353

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**2,610,267**	2,319,447	1,950,855	1,626,456	1,445,896
TOTAL LIABILITIES	**(868,481)**	(742,332)	(555,123)	(395,210)	(317,775)
NON-CONTROLLING INTERESTS	**(23,700)**	(19,031)	(17,229)	(2,898)	(1,671)
	1,718,086	1,558,084	1,378,503	1,228,348	1,126,450

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