稻香集團

Tao Heung Holdings Limited

稻香控股有限公司*

(Incorporated in the Cayman Islands with Limited Liability)

Stock Code : 573

ANNUAL REPORT 2012

* For identification purposes only

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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
UBS, AG

Principal Auditors

Ernst & Young

Stock Code

573

Website

www.taoheung.com.hk

FINANCIAL HIGHLIGHTS AND CALENDAR

Key Financial Ratios	Notes	2012 HK$'000	2011 HK$'000	Increase in %
Performance				
Revenue		**4,055,809**	3,576,099	13.4%
Profit attributable to owners of the parent		**299,199**	254,956	17.4%
Gross profit margin		**15.6%**	15.6%	–
Net profit margin	1	**7.4%**	7.1%	4.2%

		HK cents	HK cents	
Per Share Data				
Earnings per share				
– Basic		**29.32**	25.08	16.9%
– Dilutive		**29.24**	24.98	17.1%
Interim dividend per share		**6.20**	6.20	–
Proposed final dividend per share		**6.80**	6.60	3.0%

	Notes	2012 HK$'000	2011 HK$'000	Increase/ (decrease) in %
Total assets		**2,319,447**	1,950,855	18.9%
Net assets		**1,577,115**	1,395,732	13.0%
Cash and cash equivalents		**421,144**	311,445	35.2%
Net cash	2	**346,659**	289,577	19.7%
Liquidity and Gearing				
Current ratio	3	**1.0**	1.2	(16.7%)
Quick ratio	4	**0.8**	1.0	(20.0%)
Gearing ratio	5	**4.8%**	1.6%	200.0%

		HK cents	HK cents	
Per Share Data				
Net assets per share	6	**154.38**	137.20	12.5%
Net cash per share	7	**33.93**	28.47	19.2%

Notes:
1. Net profit margin is calculated as net profit attributable to owners of the parent divided by revenue.
2. Net cash is cash and cash equivalents less interest-bearing bank borrowings.
3. Current ratio is calculated as current assets divided by current liabilities.
4. Quick ratio is calculated as current assets less inventories divided by current liabilities.
5. Gearing ratio is calculated at total debt (interest-bearing bank borrowings and finance lease payables) divided by total equity attributable to owners of the parent.
6. Net assets per share is calculated based on the number of 1,021,611,000 shares (2011: 1,017,293,000 shares).
7. Net cash per share is calculated based on the number of 1,021,611,000 shares (2011: 1,017,293,000 shares).

FINANCIAL HIGHLIGHTS AND CALENDAR

Calendar

Announcement of interim results	23 August 2012
Announcement of annual results	21 March 2013
Despatch of annual report to shareholders	17 April 2013
Closure of register of members	
for attending the annual general meeting	20 May 2013 to 23 May 2013
for proposed final dividend	29 May 2013 to 5 June 2013
Annual general meeting	23 May 2013
Dividends	
Interim: HK6.20 cents per share paid	11 October 2012
Final: HK6.80 cents per share payable on	6 June 2013

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors") of Tao Heung Holdings Limited (the "Company" together with its subsidiaries, "Tao Heung" or the "Group"), I am pleased to present the annual results of the Group for the year ended 31 December 2012.

Though the business environment has continued to be challenging in 2012, it has helped highlight the importance of the Group's defensive measures, which entail the vigorous use of promotions that are complemented by effective cost controls. Tao Heung's distinctive positioning in Hong Kong and Mainland China, targeting the mass and middle-end segments respectively, has also yielded complementary advantages that led to the Group's overall healthy business performance. Consequently, Tao Heung stood out from many of its peers by its resiliency despite the general decline in consumption sentiment in Hong Kong and Mainland China.

In addition to adopting a defensive posture that ensures short-term stability, we also subscribe to the notion that to sustain long-term development requires expansion, whether in the Territory or across the border. Though organic growth invariably leads to slower profit growth in Mainland China, the benefit of broadening revenue streams as substantiated by our successful track-record, fully confirms the value of such ventures. As at the review year, the Group opened six restaurants in Hong Kong and eight restaurants in Mainland China, along with five Tai Cheong Bakery outlets – bringing the total number of restaurants in Hong Kong to 75, Mainland China to 25 and Tai Cheong Bakery outlets to 21 – and is on track to fulfil its objective of establishing a nationwide catering network of 200 outlets by 2017.

In view of the Group's steady business performance, as well as commitment to delivering fair returns to shareholders, the Board has resolved to declare a final dividend of HK6.8 cents per share. Together with an interim dividend of HK6.2 cents per share already paid, total dividend per share will amount to HK13.0 cents for the financial year, representing a payout ratio of 44.3%.

CHAIRMAN'S STATEMENT

Hong Kong remains our foundation

The effectiveness of our defensive measures was fully tested in Hong Kong during the past year. Despite a further increase in cost of labour (as part of new minimum wage legislation), sharp rise in rental and modest rise in food cost, Tao Heung sustained profitability in 2012. This was due in part to the Group's highly popular promotions, including the renowned "HK$1 Chicken" offer and "Double Happiness" (筷樂孖寶) bundle-sale campaign. The ability to leverage our Tai Po and Dongguan logistics centres – both reached new peaks in monthly outputs – and the poultry farm in Mainland China were paramount to the implementation of the aforesaid promotions, which in turn helped attract patrons to Tao Heung and achieve stable revenue growth of 10.3%.

Sustaining growth in Mainland China

Of the eight new restaurants that were opened in Mainland China, three were established outside of Guangdong Province – a new milestone. Situated in Shenyang, Wuhan and Nanning, this latest development fulfils one of the objectives set out in our second five-year plan. We will therefore closely monitor the performance of these new 'outposts', remaining open to the prospect of establishing still more restaurants outside of our traditional markets.

Aside from market expansion, the recent decline in high-end consumption sentiments creates challenges for most of the catering operators. As an esteemed dining brand that targets the middle-class, Tao Heung was not materially affected by the initiative. Focusing on "value-for-money" dining experiences, and principally targeting middle-income professionals and households, we view the change in business consumption pattern as an opportunity for Tao Heung. We duly expect a pronounced influx of higher income customers in the coming year, generating additional revenue for the Group.

Outlook

Going forward, we will continue to place effort towards improving vertical and horizontal integration, which when viewed as a whole, constitutes the stimulus to our growth. With regards to the former, we will seek to raise output at our Dongguan and Tai Po logistics centres while concurrently enhancing the synergies generated between the two facilities. The benefits are manifold, and include serving as frontline defence against rising costs and ally in meeting food processing needs in the future. In respect of horizontal integration, we will maintain our network expansion strategy while looking at new culinary spheres to enter, and thus establish additional revenue streams.

In Mainland China, there remain ample opportunities to be explored despite the slowing domestic economy; hence, the management will look to capture greater market share. Six to seven shops are set to open in the coming year, four of which have been confirmed and will respectively be located in various cities of Guangdong including Foshan, Zhuhai, Zhongshan and Guangzhou. Having tested the waters of opening restaurants outside Guangdong, the positive preliminary findings bode well for similar ventures in the future. Consequently, one to two outlets outside Guangdong will be established on an annual basis so as to move towards becoming a truly nationwide leading caterer. Already, two locations have been confirmed, specifically in Shanghai and Zhengzhou, for the coming two years.

Abiding by our defensive strategy, we will continue to strengthen our presence in Hong Kong as well. To consolidate our position in the local mass market, we will maintain the pace of network expansion to between five and six new restaurant openings in the coming year. We will also continue to introduce value-for-money promotions to our loyal customers. While helping patrons combat inflation via such offers, we will be leveraging our cost controls and vertically integrated operations to do likewise for the Group.

Aside from fulfilling our expansion goals, we will seek to diligently pursue fresh opportunities, including strengthening our peripheral business and embarking on entirely new initiatives. The Group will enhance its interest in "Bakerz 180", a bakery operation in Mainland China, to become a controlling shareholder. This follows similar action taken in Hong Kong this year when we became the sole owner of Tai Cheong Bakery. Separately, we have signed a memorandum of understanding with a renowned listed Japanese dining operator, which will lead us into Japanese food catering for the very first time.

While having mentioned the important roles that our logistics centres in Dongguan and Tai Po play, it is worth noting that the poultry farm acquired at the start of 2011 represents an essential component of our vertical integration drive as well. The said farm not only ensures that we have a steady staple of high-quality poultry and pork, but also additional revenue. The Mainland China farm and two logistics centres thus represent important cogs that drive Tao Heung forward, enabling it to benefit from cost efficiency and quality control as well as opening the way for possible expansion goals.

Our focus on preparing Tao Heung for the future is certainly not isolated to the Group itself. It also entails preparing new generations of professionals to contribute to an industry that is close to our hearts: Chinese food catering. As the sole sponsor of the Professional Diploma in Chinese Catering Management, with the assistance from the Vocational Training Council (VTC) since 2000, we take pleasure and pride in seeing the programme's steady development. Besides, the Group has invested HK$43 million to refurbish our disused logistics centre in Fotan to establish the "Chung Wai-ping building", provided part of the floor area on a rent-free basis to VTC for establishing the VTC Tao Miao Institute (the Institute), and would cover the first two years' operating expenses of the Institute. Further assistance has come by way of the Hong Kong Quality Assurance Agency, Occupational Safety and Health Council and Institution of Dining Art. The VTC Tao Miao Institute plans to offer Professional Diploma, Professional Certificate, Certificate and short programmes. Having already attracted a fresh crop of individuals to Chinese food catering, the Group's next objective will be to raise management standards and the professionalism of the industry to new levels. This will not only pay dividends for Tao Heung, but to industry players as a whole.

Appreciation

On behalf of the Board, I would like to take extend my appreciation to the management for their contributions to the Group and to the entire workforce for their hard work and commitment during the past year. Our customers, business partners and shareholders must certainly be lauded for their unequivocal support as well.

Chung Wai Ping
Chairman

Hong Kong
21 March 2013

MANAGEMENT DISCUSSIONS AND ANALYSIS

MANAGEMENT DISCUSSIONS AND ANALYSIS

Review

The Board is pleased to announce the Group's annual results for the year ended 31 December 2012. Over the past 12 months, the Group managed to realise double-digit growth in turnover, both from its operations in Hong Kong and Mainland China, while achieving higher overall profitability as well. Tao Heung's ability to remain resilient in the face of challenging conditions can be attributed to a well-defined positioning strategy that ensures the operations in Hong Kong and Mainland China complement one another. In Hong Kong, the Group has focused on the large mass market which favours restaurants that provide quality catering services at competitive prices, and is particularly appealing during periods of high-inflation as is currently the situation. With respect to the Mainland China market, the Group has positioned itself in the mid-end segment of the market, which is immune to the recent decline in high-end consumption sentiments.

Tao Heung's ability to weather unfavourable conditions is clearly evident by its record breaking pace of expansion during the past year. In all, 19 establishments were opened which is a new high for the Group, comprising 14 restaurants and five Tai Cheong Bakery outlets. What is more, Tao Heung has for the first time extended its business presence outside of Guangdong Province, setting the stage for future growth.

Still other important factors that have enabled Tao Heung to sustain growth include the use of effective promotions that help maintain customer traffic; continuous efforts at controlling rent, labour and food costs; fully utilising the two centralised food processing and logistics centres; and leveraging a vertically integrated food supply chain.

Financial results

The Group generated revenue of approximately HK$4,056 million for the reporting year, representing a year-on-year increase of around 13.4%. The rise can, in part, be attributed to the aforementioned opening of 14 new restaurants, six of which were in Hong Kong and eight in Mainland China. Significant promotions also helped to maintain customer traffic in Hong Kong, especially during dinner hours. In Mainland China, Tao Heung's solid market position allowed it to tap the middle class and banquet segments, as well as new opportunities resulting from the decline in high-end catering. With food costs rising in a stable manner, particularly towards the end of the year, gross margin remained at same level of that in the preceding financial year. EBITDA rose by 16.3% to HK$614 million, up from HK$528 million in 2011. Profit attributable to owners of the parent amounted to HK$299 million, a year-on-year increase of 17.3% (2011: HK$255 million).

MANAGEMENT DISCUSSIONS AND ANALYSIS

Hong Kong operations

In the face of weak consumption sentiment resulting from high inflation and uncertainty about the global economy, Tao Heung continued to rely on defensive measures that have consistently been refined since the global financial crisis of 2008. The combination of effective marketing promotions and the expanded restaurant network enabled the Hong Kong operations to generate revenue of HK$2,990 million, an increase of 10.3% over the corresponding period of last year. EBITDA increased by 24.1% to HK$423 million. As at 31 December 2012, the Group operated a total of 75 outlets, six more than in 2011. To boost customer traffic at all of the restaurants, a range of marketing campaigns and product promotions were employed, including the "Double Happiness" (筷樂孖寶) bundle-sale campaign and the "HK$1 Chicken" offer, both of which attracted many families to dine at Tao Heung. Correspondingly, customer traffic increased by 14.6% during dinner hours while average spending per head rose by 5.6%. These two factors contributed to a satisfactory performance of Hong Kong operations during the year under review.

Profit attributable to owners of the parent for the period was HK$234 million, up a notable 30.7% over last year (2011: HK$179 million). Contributing to the higher profitability was the overall operational excellence of Tao Heung, as well as more stable food costs towards the end of 2012. In terms of labour cost, the Group continued to take belt-tightening measures, including the continuous use of various kinds of automated processes such as automated queuing, automated self-ordering and self-service auto-payment to sustain profitability.

The Group's bakery business reported satisfactory development. Uptake of Tai Cheong Bakery products was bolstered by the opening of five additional outlets in Hong Kong. Consequently, the Group operated a total of 21 outlets as at 31 December 2012. Along with broadening the bakery network, Tao Heung has expanded the range of products offered, and introduced appealing new packaging to the approval of customers.

In view of the healthy development of Tai Cheong Bakery, the Group has acquired the remaining 20% share of the business. Consequently, effective from January 2013, Tao Heung has become the 100% controlling shareholder of the business, and intends to open six or seven new shops annually in the coming five years.

Mainland China operations

The Group recorded revenue of HK$1,066 million from the Mainland China operations, which is a healthy increase of 23.2% over 2011. Once again, the growth can partly be attributed to Tao Heung's ever expanding presence in the country, which, as at 31 December 2012 rose by eight new outlets to a total of 25, including three restaurants outside Guangdong Province. Despite muted economic growth, the Group continued to make solid progress in the country due to the management's decision from the outset to cater for middle-class consumers and families, as well as the wedding and banquet segment. More importantly, Tao Heung's strong brand awareness has been continuously bolstered as consumers become increasingly wary of food safety and have favourable associations with Tao Heung as a Hong Kong trustworthy brands.

EBITDA realised a modest gain of 2.3% to HK$191 million, while profit attributable to owners of the parent declined to HK$65 million (2011: 76 million). The inconsistency in revenue and profit was due mainly to the rise in depreciation of this segment to HK$112 million during the review year, as well as eight new restaurants openings in 2012, which is equivalent to nearly half of the total shop count in the preceding financial year. Though the new shops will require time to mature as they are still in an investment stage, the management anticipates higher revenue contributions from these operations from late 2013 or early 2014. This is consistent with the Group's overall strategy of sustaining growth in the mid- to long-term.

Logistics centres

The logistics centres continued to play essential roles in allowing management to explore more peripheral business opportunities, and thus pave the way for Tao Heung's future growth. Already the cornerstone of vertical integration efforts, the two logistics centres not only provide processed food to the Group's restaurants, but also products for its bakery business along with pre-packaged and festive products such as dim sum, mooncakes and CNY rice dumplings.

The logistics centre in Dongguan continued to increase the supply of food to the Group's restaurants, which, as at the reporting year rose to around 1,000 tonnes per month. In addition to higher usage, better control of food quality and higher operational efficiency were achieved. In the coming financial year, the Group seeks to raise output at the Dongguan Logistics Centre still further, establishing a target of 1,100 tonnes per month.

In respect of the logistics centre in Tai Po, it has continued to generate greater synergies with its counterpart in Dongguan since it became operational in January 2011. In the short time since the Tai Po Logistics Centre has opened, it has already played a valuable role in alleviating rising expenditures. Average output of approximately 1,000 tonnes per month was reached in the reporting year, and is expected to climb to 1,100 tonnes per month in 2013.

Peripheral business

The peripheral business achieved stable growth with revenue up 12.6% to approximately HK$224 million. While all products from this business segment are from the centralised food processing centre, and thus have a high standard of quality, sales from festive food, especially pun choi and CNY rice dumplings, were particularly promising. On the wholesale catering front, pre-packaged, chilled and frozen food continued to generate steady revenue for the Group as well, and reported a notable level of profitability. The management will thus continue exploring possible distribution channels for pre-packaged food.

With regards to the poultry farm that the Group acquired at the start of 2011, it has continued to play a vital role in allowing Tao Heung to achieve a more vertically integrated food supply chain, and thus help control escalating food costs. At the same time, the farm has played an equally important role in ensuring a stable source of high-quality chicken and pork. While fulfilling both tasks successfully, it has also generated revenue of HK$80 million during the year, up 14.3% over 2011.

Financial resources and liquidity

The Group maintained a strong financial and liquidity position during the year under review. As at 31 December 2012, the Group's total assets increased to approximately HK$2,319 million (2011: approximately HK$1,951 million) while the total equity increased to approximately HK$1,577 million (2011: approximately HK$1,396 million).

As at 31 December 2012, the Group had cash and cash equivalents of approximately HK$421 million. After deducting total interest-bearing bank borrowings of approximately HK$74 million, the Group had a net cash surplus position of approximately HK$347 million. In view of its cash-rich position, the Group continues to explore potential investments or business development opportunities to deploy its cash resources with an aim to enhance the Group's profitability and values to its shareholders.

As at 31 December 2012, the Group's gearing ratio (defined as total interest-bearing bank borrowings plus finance lease payable divided by total shareholders' equity) was 4.8% (2011: 1.6%).

Capital expenditure

Capital expenditure for the year ended 31 December 2012 amounted to approximately HK$450 million and capital commitments as at 31 December 2012 amounted to approximately HK$88 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 2012, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$28 million (2011: approximately HK$26 million).

Foreign exchange risk management

The Group's sales and purchases for the year ended 31 December 2012 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 2012, the Group had 9,312 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 2012, approximately 4,530,000 options were outstanding under the Pre-IPO Share Option Scheme and 4,318,000 share options have been exercised during the year. Also, as at 31 December 2012, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

Pledge of assets

As at 31 December 2012, the Group pledged its bank deposits of approximately HK$12 million, leasehold land and buildings of approximately HK$20 million and investment properties of approximately HK$11 million to secure the banking facilities granted to the Group.

Prospects

In the coming year, uncertainty will continue to persist surrounding the world economy, while in Hong Kong and Mainland China, the spectre of inflation will likely impact on both regions' economic growth. For food caterers including Tao Heung, weak consumption sentiment will continue to be one of the main challenges, though cost pressure on meat and seafood are expected to decline as a result of weaker demand in China. The management therefore remains cautiously optimistic about the Group's prospects entering into 2013.

MANAGEMENT DISCUSSIONS AND ANALYSIS

As a leading Chinese restaurant group with firm roots in Hong Kong, Tao Heung has experienced, and overcome numerous business upheavals. It has subsequently developed defensive measures that protect the Group's business integrity, while concurrently tapping opportunities that often emerge in times of difficulty. Tao Heung will therefore continue to leverage this defensive component in its strategy to capture greater market share. This will include exploiting the Group's effective cost controls to deliver high-value-for-money catering services. Network expansion will continue as well, with five or six new restaurant openings in 2013. The third prong of this strategy will involve effective marketing campaigns that encompass appealing promotional dishes targeting the mass market segment, particularly families. Through this balanced approach, the management is confident about the Group's ability to sustain customer traffic and profitability at all of its Hong Kong establishments.

Though economic growth in Mainland China has tapered in recent years, the management remains optimistic about opportunities it sees on the horizon. The decline in high-end consumption sentiments has opened the way for Tao Heung to cater for a new clientele that will continue frequenting restaurants they deem as high quality but less ostentatious. The Group will certainly focus on its primary markets, comprising the middleclass and families, along with the wedding and banquet segment. To win these customers over, Tao Heung will maintain its commitment to food safety and a value-for-money principle, a concern that increasingly resonates with Mainland Chinese.

Expansion across southern China will remain a principal objective in the coming year, with already six or seven shop openings planned. Five confirmed shop premises have already been located in Foshan, Zhuhai, Zhongshan, Guangzhou and Shanghai. While Guangdong has been the Group's traditional stronghold, the seeds have been sown for taking Tao Heung to the next level. In the past year, restaurants were opened in Wuhan, Shenyang and Nanning, all of which are expected to bear fruit in two to three years time. The management plans to open one to two restaurants every year in the regions outside Guangdong province in the future. Two scheduled openings in 2013 and 2014 are located in Shanghai and Zhengzhou respectively.

Aside from its restaurant operations, the management is equally committed to establishing a presence in Mainland China' baked goods arena. At the date of announcement, the Group has expanded its shareholding in "Bakerz 180", a renowned bakery chain in the Southern China, from 12% to 60%, and thus become its single largest shareholder. Bakerz 180 presently runs six shops and also has its own centralised kitchen in Shenzhen. Though plans of opening six to seven new shops per year are on the table, Tao Heung will seek to widen the Bakerz 180 network still further, while remaining in Guangdong province within the short-to-medium term. Guangzhou will in fact be one of the very first shop openings outside of Shenzhen under present plan.

While network expansion and exploring new opportunities are essential, the necessary support mechanisms must be in place in order to help fulfil these objectives. The Dongguan and Tai Po logistics centres and poultry farm in Southern China provides just such support. In addition, they help cushion the impact of ever-rising food and labour costs. Mindful of this, the management will continue to take steps at bolstering the efficiency of all three facilities. Aside from enhancing the key components of vertical integration, optimising elements of horizontal integration will be pursued as well. This will involve further adoption of such technologies as automated ticketing, self service auto-payment and prepaid cards. Moreover, lifting the efficiency of all of the restaurant's kitchens will be a top priority of the Group for the coming years through adopting more technologies that can lead to a smaller workforce.

With 2013 marking the second phase of Tao Heung's master development plan, the management will step up efforts at further enhancing the dining experience of target customers; devise innovative multi-branding strategies that raise customer traffic; and reinforce all elements of its infrastructure. As the number of restaurants and bakery outlets are all set to rise in the coming year, Tao Heung is well on its way to realising its goal of operating 200 outlets by 2017, and to truly become a nationwide catering leader.

DIRECTORS AND SENIOR MANAGEMENT

Executive directors

Mr. Chung Wai Ping, aged 53, 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. Mr. Chung is a cousin of Mr. Chung Ming Fat, who is an executive Director.

Mr. Wong Ka Wing, aged 55, 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 58, is an Executive Director and was appointed on 29 December 2005. Mr. Chung is one of our founders. Mr. Chung is primarily responsible for the overall operation of our Dongguan Logisties 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 42, 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 50, is an Executive Director and was appointed on 1 March 2007. Ms. Wong is primarily responsible for the overall environment control and business development. Ms. Wong joined the Group in August 2005 as deputy director of logistics operation and began her career in the Chinese restaurant industry. Prior to joining us, Ms. Wong held management positions in various multinational corporations, including DEC and Motorola Inc. Ms. Wong holds a Bachelor degree (honours) of Business Administration in Business Information Systems from the Open University of Hong Kong and a Master degree of Science in Engineering Business Management from the Hong Kong Polytechnic University jointly with the University of Warwick, United Kingdom.

Mr. Ho Yuen Wah, aged 51, is an Executive Director and was appointed on 1 March 2007. Mr. Ho is the Chief Business Officer and is primarily responsible for management and development of restaurants chain and retail business of the Group. Mr. Ho joined the Group in December 1991 as restaurant manager and was promoted to be the director of business management department in 2003. Mr. Ho has over 25 years of experience in the Chinese restaurant industry.

Non-executive directors

Mr. Fong Siu Kwong, aged 55, 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 61, 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 Board Member of the Hong Kong Tourism Board and a member of the Business Facilitation Advisory Committee appointed by the Hong Kong Special Administrative Region.

Independent non-executive directors

Mr. Li Tze Leung, SBS JP, aged 58, is an Independent Non-executive Director and was appointed on 1 March 2007. Besides, he was also appointed as a member of both Audit Committee and Remuneration Committee on 9 June 2007. Mr. Li has been serving the retail industry for more than 30 years and is currently the chairman of Broadway Photo Supply Ltd.. He is a member of the National Committee of Chinese People's Political Consultative Conference, as well as the Hong Kong SAR Election Committee. Mr. Li is also the President of H.K. & Kowloon Electrical Appliances Merchants Association Ltd..

Professor Chan Chi Fai, Andrew, JP, aged 59, is an Independent Non-executive Director and was appointed on 9 March 2007. Besides, he was also appointed as a member of both Audit Committee and Nomination Committee on 9 June 2007. Professor Chan holds a Master degree of Business Administration from the University of California, Berkeley, U.S., a Bachelor degree of Business Administration and a Doctorate degree of Philosophy from the Chinese University of Hong Kong (CUHK). Professor Chan is at present the Director of the EMBA programmes in the CUHK. In addition to other appointments, Professor Chan is also currently the Chairman of the Chinese Medicine Council and the Process Review Committee of the Hong Kong Monetary Authority. Moreover, he is a member of the Quality Tourism Services (QTS) Committee and an advisor of the Quality Tourism Services Association (QTSA). Professor Chan has approximately 30 years of experience in the education industry.

Mr. Mak Hing Keung, Thomas, aged 50, 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. Prior to joining South China Media, 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 57, is an Independent Non-executive Director and was appointed on 1 March 2007. Besides, he was also appointed as a member of Nomination Committee on 9 June 2007. Mr. Ng holds an Associate degree in Arts in Business Data Processing from Chabot College in the United States. He holds offices as a director with a number of private companies which are principally engaged in technology, property development, finance and property holding. Mr. Ng is also an independent non-executive director of China Agri-Products Exchange Limited and VST Holdings Limited, the shares of both companies are listed on the Main Board of the Stock Exchange and he was appointed on 10 February 2009. Besides, Mr. Ng was also appointed as an Independent non-executive director and a member of each of the audit committee and remuneration committee of Intelli-Media Group (holdings) Limited, a company listed on the GEM of the Stock Exchange and he subsequently resigned on 1 March 2009.

Senior management

Mr. Cheng Ho Yuen, aged 47, 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 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 38, is the director of finance and accounting 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 44, is the director of human resources. She joined us in March 2002 as a manager of the human resources. Ms. Li holds a master's degree of science in strategic human resources management from Hong Kong Baptist University and a bachelor's degree in business from Monash University. Ms. Li has over 16 years experience in human resources management in a Hong Kong listed company and other retail & information technology companies.

CORPORATE GOVERNANCE REPORT

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

The Company has complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices (the "**CG Code**") as set forth in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") of the Stock Exchange throughout the year ended 31 December 2012.

Model code for securities

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

Board of directors

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

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

Executive directors:

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

Non-executive directors:

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

Independent non-executive directors:

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

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

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

The Company has renewed the service contract of each of the Non-executive Directors and Independent Non-executive Directors for a term of two years commencing from 29 June 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.

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 2012

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held during the year	4	2	1	1
Executive Directors:				
Mr. Chung Wai Ping *(Chairman)*	4/4	N/A	N/A	N/A
Mr. Wong Ka Wing	4/4	N/A	N/A	N/A
Mr. Chung Ming Fat	4/4	N/A	N/A	N/A
Mr. Leung Yiu Chun *(Chief Executive Officer)*	4/4	N/A	N/A	N/A
Ms. Wong Fun Ching	4/4	N/A	N/A	N/A
Mr. Ho Yuen Wah	4/4	N/A	N/A	N/A
Non-executive Directors:				
Mr. Fong Siu Kwong	4/4	N/A	1/1	N/A
Mr. Chan Yue Kwong, Michael	4/4	2/2	N/A	1/1
Independent non-executive Directors:				
Mr. Li Tze Leung	4/4	2/2	1/1	N/A
Professor Chan Chi Fai, Andrew	4/4	1/2	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	97.9%	87.5%	100.0%	100.0%

Board committees

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

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

Audit committee

Composition

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

Role and function

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

Summary of work done

The following is a summary of the work performed by the Audit Committee during the year ended 31 December 2012:

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 2012, the Nomination Committee has reviewed made recommendation on the re-election of the directors to be proposed for shareholders' approval at the annual general meeting on 23 May 2013.

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 2012, 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 2012 is set out below:

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

Further particulars in relation to Directors' 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.

Directors' 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 2012, 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 page 32 to 33 of this annual report.

External auditors

The Group appointed Ernst & Young as the Group's principal auditors. The acknowledgement of their responsibilities on the financial statements is set forth the Independent Auditors' Report on page 32 to 33 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 2012 is as follows:

	2012 HK$'000	2011 HK$'000
Audit fee		
– provision for the year	**2,700**	3,100
Non-audit service fees	**217**	117
Total	**2,917**	3,217

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 2012.

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 18 to the financial statements.

Results and dividends

The results of the Group for the year ended 31 December 2012 and state of affairs of the Company and the Group as at that date are set forth in financial statements on pages 34 to 106.

An interim dividend of HK6.20 cents per ordinary share, totaling approximately HK$63,340,000 were paid on 11 October 2012. The directors recommended the payment of a final dividend of HK 6.80 cents per ordinary share, totaling approximately HK$69,470,000 in respect of the year to shareholders on the register of members on 28 May 2013. The proposed final dividend for the year ended 31 December 2012 has been approved at the Company's board meeting on 21 March 2013. 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 2012 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, 20 May 2013 to Thursday 23 May 2013, both days inclusive, for the purpose of ascertaining shareholders' entitlements to attend and vote at the 2012 Annual General Meeting. In order to be eligible to attend and vote at the 2012 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 Thursday, 16 May 2013; and

(ii) From Wednesday, 29 May 2013 to Wednesday 5 June 2013, 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 Tuesday, 28 May 2013.

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 108 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 107.

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. 350,000 options were cancelled upon the termination of employment during the year under review.

During the year, 4,318,000 options granted under the Pre-IPO Share Option Scheme have been exercised. Share options granted under the Pre-IPO Share Option Scheme are exercisable at HK$1.59 per share and the holders of the said share options may exercise the share options during the period from 29 June 2009 to 28 June 2012, both days inclusive.

Details of the share options outstanding as at 31 December 2012 which have been granted under the Pre-IPO Share Option Scheme are as follows:

		Number of options					
Name	Date of grant	Options outstanding at 1 January 2012	Granted during the year	Options exercised during the year	Options lapsed on expiry	Options cancelled upon termination of employment	Options outstanding at 31 December 2012
Executive Directors							
Mr. Leung Yiu Chun	9 June 2007	320,000	–	(320,000)	–	–	–
Ms. Wong Fun Ching	9 June 2007	560,000	–	(560,000)	–	–	–
Other employees	9 June 2007	8,318,000	–	(3,438,000)	–	(350,000)	4,530,000
		9,198,000	–	(4,318,000)	–	(350,000)	4,530,000

(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 changes in equity, respectively.

Distributable reserves

At 31 December 2012, 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$836,462,000 of which HK$69,470,000 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$683,251.

Major customers and suppliers

For the year ended 31 December 2012, 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 35.0% and 15.3% 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 Ming Fat and Mr. Leung Yiu Chun, the following Non-executive Director namely Mr. Chan Yue Kwong, Michael and the following Independent Non-executive Director namely Mr. Ng Yat Cheung will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

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

Directors' and senior management's biographies

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

Directors' service contracts

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

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

Directors' remuneration

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

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

Directors' interests in contract

Saved as disclosed under the section headed "Continuing Connected Transaction" on page 31 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 2012.

Directors' interests and short positions in shares and underlying shares

As at 31 December 2012, 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	378,355,689	–	390,529,911	38.23
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) 378,355,689 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 2012, 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 2012, 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)	378,355,689	37.04
Joy Mount Investments Limited	(b)	103,283,124	10.11
Perfect Plan International Limited	(c)	102,053,976	9.99
Value Partners Limited	(d)	71,462,000	6.99
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 2012, 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 term or no 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
21 March 2013

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

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

We have audited the consolidated financial statements of Tao Heung Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 34 to 106, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
21 March 2013

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	5	**4,055,809**	3,576,099
Cost of sales		**(3,424,213)**	(3,016,631)
Gross profit		**631,596**	559,468
Other income and gains, net	5	**26,949**	33,395
Selling and distribution expenses		**(85,174)**	(92,781)
Administrative expenses		**(190,850)**	(169,088)
Other expenses		**(708)**	(8,682)
Finance costs	6	**(604)**	(461)
Share of losses of associates		**(1)**	–
PROFIT BEFORE TAX	7	**381,208**	321,851
Income tax expense	10	**(77,220)**	(63,094)
PROFIT FOR THE YEAR		**303,988**	258,757
Attributable to:			
Owners of the parent	11	**299,199**	254,956
Non-controlling interests		**4,789**	3,801
		303,988	258,757
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic (HK cents)	13	**29.32**	25.08
– Diluted (HK cents)	13	**29.24**	24.98

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 2012

	Notes	2012 HK$'000	2011 HK$'000
PROFIT FOR THE YEAR		**303,988**	258,757
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**13,495**	21,191
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**317,483**	279,948
Attributable to:			
Owners of the parent	11	**312,203**	275,795
Non-controlling interests		**5,280**	4,153
		317,483	279,948

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,277,595**	1,031,228
Prepaid land lease payments	15	**63,330**	19,354
Investment properties	16	**12,390**	8,540
Goodwill	17	**38,569**	38,239
Investments in associates	19	**8,587**	3,316
Biological assets	20	**2,087**	2,803
Deferred tax assets	21	**66,621**	62,934
Rental deposits		**101,043**	94,278
Deposits for purchases of items of property, plant and equipment		**16,756**	38,148
Other deposit		**–**	1,648
Total non-current assets		**1,586,978**	1,300,488
CURRENT ASSETS			
Inventories	22	**173,459**	134,833
Biological assets	20	**18,305**	9,269
Trade receivables	23	**27,323**	25,720
Prepayments, deposits and other receivables	24	**79,190**	82,306
Tax recoverable		**996**	3,823
Pledged deposits	25	**12,052**	11,914
Restricted cash	26	**–**	71,057
Cash and cash equivalents	25	**421,144**	311,445
Total current assets		**732,469**	650,367
CURRENT LIABILITIES			
Trade payables	27	**244,471**	179,271
Other payables and accruals	28	**355,999**	299,171
Interest-bearing bank borrowings	29	**74,485**	21,868
Finance lease payables	30	**313**	323
Due to a non-controlling shareholder of subsidiaries	31	**–**	60
Tax payable		**41,769**	26,764
Total current liabilities		**717,037**	527,457
NET CURRENT ASSETS		**15,432**	122,910
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,602,410**	1,423,398

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	**2012 HK$'000**	2011 HK$'000
NON-CURRENT LIABILITIES			
Finance lease payables	30	**474**	621
Due to non-controlling shareholders of subsidiaries	31	**11,623**	11,391
Deferred tax liabilities	21	**13,198**	15,654
Total non-current liabilities		**25,295**	27,666
Net assets		**1,577,115**	1,395,732
EQUITY			
Equity attributable to owners of the parent			
Issued capital	32	**102,161**	101,729
Reserves	34(a)	**1,386,453**	1,209,633
Proposed final dividend	12	**69,470**	67,141
		1,558,084	1,378,503
Non-controlling interests		**19,031**	17,229
Total equity		**1,577,115**	1,395,732

Chung Wai Ping
Director

Leung Yiu Chun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

		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 2011		101,614	316,526	110,748	21,136	19,206	9	38,363	556,729	64,017	1,228,348	2,898	1,231,246
Profit for the year		–	–	–	–	–	–	–	254,956	–	254,956	3,801	258,757
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		–	–	–	–	–	–	20,839	–	–	20,839	352	21,191
Total comprehensive income for the year		–	–	–	–	–	–	20,839	254,956	–	275,795	4,153	279,948
Issue of shares	32	115	3,945	–	–	(2,228)	–	–	–	–	1,832	–	1,832
Equity-settled share option arrangements	33	–	–	–	–	1,019	–	–	–	–	1,019	–	1,019
Transfer of share option reserve upon the forfeiture or expiry of share options	33	–	–	–	–	(277)	–	–	277	–	–	–	–
Acquisition of subsidiaries	35	–	–	–	–	–	–	–	–	–	–	12,394	12,394
Acquisition of non-controlling interests	36	–	–	–	(1,358)	–	–	–	–	–	(1,358)	(176)	(1,534)
Dividend paid to a non-controlling shareholder of subsidiaries		–	–	–	–	–	–	–	–	–	–	(2,040)	(2,040)
Final 2010 dividend declared	12	–	–	–	–	–	–	–	(49)	(64,017)	(64,066)	–	(64,066)
Interim 2011 dividend	12	–	–	–	–	–	–	–	(63,067)	–	(63,067)	–	(63,067)
Proposed final 2011 dividend	12	–	–	–	–	–	–	–	(67,141)	67,141	–	–	–
At 31 December 2011		101,729	320,471*	110,748*	19,778*	17,720*	9*	59,202*	681,705*	67,141	1,378,503	17,229	1,395,732

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

		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 or expiry 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 subsidiaries		–	–	–	–	–	–	–	–	–	–	(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

* These reserve accounts comprise the consolidated reserves of HK$1,386,453,000 (2011: HK$1,209,633,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**381,208**	321,851
Adjustments for:			
Interest income	5	**(1,865)**	(3,808)
Fair value gains on investment properties	5	**(3,850)**	(920)
Finance costs	6	**604**	461
Gain on disposal of items of property, plant and equipment, net	7	**(269)**	(8,450)
Write-off of items of property, plant and equipment	7	**708**	7,842
Change in fair value less cost to sell of biological assets	7	**(1,845)**	840
Recognition of prepaid land lease payments	7	**1,049**	363
Depreciation of property, plant and equipment	7	**233,951**	206,920
Equity-settled share option expense	7	**–**	1,019
Share of losses of associates		**1**	–
		609,692	526,118
Increase in rental deposits		**(6,439)**	(18,067)
Increase in inventories		**(37,795)**	(67,884)
Decrease/(increase) in biological assets		**(6,219)**	3,069
Increase in trade receivables		**(492)**	(337)
Decrease/(increase) in prepayments, deposits and other receivables		**4,392**	(14,115)
Increase in trade payables		**63,499**	31,477
Increase in other payables and accruals		**54,918**	28,102
Cash generated from operations		**681,556**	488,363
Interest paid		**(586)**	(458)
Hong Kong profits tax paid		**(41,643)**	(27,065)
Overseas taxes paid		**(23,865)**	(19,091)
Net cash flows from operating activities		**615,462**	441,749

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(432,865)**	(284,100)
Deposits paid for purchases of items of property, plant and equipment		**(16,756)**	(38,148)
Additions to prepaid land lease payments		**(45,451)**	–
Acquisition of subsidiaries	35	**–**	(38,392)
Acquisition of non-controlling interests	36	**(10,008)**	–
Loan to an associate		**(5,272)**	–
Decrease/(increase) in restricted cash		**71,057**	(71,057)
Proceeds from disposal of items of property, plant and equipment		**317**	11,334
Decrease/(increase) in pledged deposits		**(138)**	19,286
Interest received		**1,865**	3,808
Decrease in non-pledged deposits with original maturity over three months when acquired		**–**	50,000
Decrease in other deposit		**1,648**	2,794
Net cash flows used in investing activities		**(435,603)**	(344,475)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	32	**6,866**	1,832
New bank loans		**74,000**	52,000
Repayment of bank loans		**(21,383)**	(41,405)
Capital element of finance lease payments		**(157)**	(172)
Interest element of finance lease payments		**(18)**	(3)
Dividends paid		**(130,766)**	(127,133)
Dividends paid to a non-controlling shareholder of subsidiaries		**(2,192)**	(2,040)
Decrease in an amount due to a non-controlling shareholder of subsidiaries		**(60)**	(886)
Net cash flows used in financing activities		**(73,710)**	(117,807)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**106,149**	(20,533)
Cash and cash equivalents at beginning of year		**311,445**	332,655
Effect of foreign exchange rate changes, net		**3,550**	(677)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**421,144**	311,445
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**421,144**	311,445

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	**448,006**	448,681
CURRENT ASSETS			
Prepayments	24	**212**	286
Due from a subsidiary	18	**499,546**	490,414
Cash and cash equivalents	25	**849**	412
Total current assets		**500,607**	491,112
CURRENT LIABILITIES			
Other payables and accruals	28	**1,259**	1,035
NET CURRENT ASSETS		**499,348**	490,077
Net assets		**947,354**	938,758
EQUITY			
Issued capital	32	**102,161**	101,729
Reserves	34(b)	**775,723**	769,888
Proposed final dividend	12	**69,470**	67,141
Total equity		**947,354**	938,758

Chung Wai Ping
Director

Leung Yiu Chun
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2012

1. Corporate information

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

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

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

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

2.1 Basis of preparation

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

Basis of consolidation

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

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

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

2.1 Basis of preparation (continued)

Basis of consolidation (continued)

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

2.2 Changes in accounting policy and disclosures

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

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

Other than as further explained below regarding the impact of amendments to HKAS 12, the adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

The HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. Prior to the adoption of the amendments, deferred tax with respect to the Group's investment properties was provided on the basis that the carrying amount will be recovered through use, and accordingly the profits tax rate had been applied to the calculation of deferred tax arising on the revaluation of the Group's investment properties. Upon the adoption of HKAS 12 Amendments, deferred tax in respect of the Group's investment properties is provided on the presumption that the carrying amount will be recovered through sale. The adoption of the HKAS 12 Amendments did not have material impact on the financial position or performance of the Group.

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

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

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

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

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application, 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 positions.

2.4 Summary of significant accounting policies

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture.

Associates

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

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether 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.

2.4 Summary of significant accounting policies (continued)

Business combinations and goodwill (continued)

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.

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 in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

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 to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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 income statement in the period in which it arises.

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;

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2.4 Summary of significant accounting policies (continued)

Related parties (continued)

(b) (continued)

(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.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Leasehold land under finance leases	Over the lease terms
Buildings	Over the shorter of the lease term and 2% – 5%
Leasehold improvements	10% – 33$^1/_3$%
Furniture, fixtures and equipment	20% – 33$^1/_3$%
Motor vehicles	20% – 25%

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

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 income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

Investment properties

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

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

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

Leases

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

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

2.4 Summary of significant accounting policies (continued)

Leases (continued)

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Derecognition of financial assets

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

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

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

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets (continued)

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

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 income statement for the period in which it arises.

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.

2.4 Summary of significant accounting policies (continued)

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Income tax (continued)

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

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

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

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

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income 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 income statement 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 income statement 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 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

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

2.4 Summary of significant accounting policies (continued)

Share-based payments (continued)

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 when non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

Other employee benefits

Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in certain employee social security plans (the "Plans"), including pension and other welfare benefit plans, administered by the government authorities. These subsidiaries are required to contribute a certain percentage of their payroll costs to the Plans. The contributions are charged to the income statement as they become payable in accordance with the rules of the Plans.

Dividends

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

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

2.4 Summary of significant accounting policies (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using their respective 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 retranslated at the functional currency rates of exchange prevailing at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation 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 the Company's overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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 assets

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

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty

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

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

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

Impairment of goodwill

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

Estimation of fair value of investment properties

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

Estimation of fair value 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, on an open market existing use basis. The valuer has made reference to the market-determined prices, cultivation area, species, growing conditions, cost incurred and/or the professional valuation.

Impairment allowances on loans and receivables

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

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Deferred tax assets

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

4. Operating segment information

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

Geographical information

The following tables present revenue from external customers for the years ended 31 December 2012 and 2011, and certain non-current asset information as at 31 December 2012 and 2011, by geographic area.

(a) Revenue from external customers

	2012 HK$'000	2011 HK$'000
Hong Kong	**2,989,456**	2,710,238
Mainland China	**1,066,353**	865,861
	4,055,809	3,576,099

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

(b) Non-current assets

	2012 HK$'000	2011 HK$'000
Hong Kong	**740,260**	541,220
Mainland China	**679,054**	600,408
	1,419,314	1,141,628

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

5. Revenue, other income and gains, net

Revenue, which is also the Group's turnover, represents gross restaurant, bakery and poultry farm revenue and net invoiced value of goods sold, net of relevant taxes and allowances for trade discounts.

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

	Group	
	2012	2011
	HK$'000	HK$'000
Revenue		
Restaurant and bakery operations	**3,832,044**	3,377,255
Sale of food	**143,819**	128,658
Poultry farm operations	**79,946**	70,186
	4,055,809	3,576,099
Other income and gains, net		
Bank interest income	**1,865**	3,808
Change in fair values less cost to sell of biological assets	**1,845**	–
Fair value gains on investment properties	**3,850**	920
Gain on disposal of items of property, plant and equipment, net	**269**	8,450
Government grants	**896**	903
Gross rental income from investment properties	**495**	466
Gross rental income from sublease of poultry market	**9,639**	9,780
Sponsorship income	**4,670**	5,505
Others	**3,420**	3,563
	26,949	33,395

6. Finance costs

	Group 2012 HK$'000	2011 HK$'000
An analysis of finance costs is as follows:		
Interest on bank loans wholly repayable		
– Within five years	**573**	444
– Beyond five years	**13**	14
Interest on finance leases	**18**	3
	604	461

7. Profit before tax

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

	Notes	2012 HK$'000	2011 HK$'000
Cost of inventories sold		**1,355,177**	1,207,231
Depreciation*	14	**233,951**	206,920
Amortisation of land lease payments*	15	**1,049**	363
Gross rental income from investment properties	5	**(495)**	(466)
Employee benefit expense* (including directors' remuneration (note 8)):			
Salaries and bonuses		**1,026,671**	919,720
Retirement benefit scheme contributions (defined contribution schemes)		**61,576**	49,443
Equity-settled share option expense	33	**–**	1,019
		1,088,247	970,182
Lease payments under operating leases in respect of land and buildings*:			
Minimum lease payments		**279,484**	245,272
Contingent rents		**17,417**	14,338
		296,901	259,610

7. Profit before tax (continued)

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

	Notes	**2012 HK$'000**	2011 HK$'000
Auditors' remuneration		**3,514**	3,574
Change in fair values less cost to sell of biological assets	20	**(1,845)**	840
Gain on disposal of items of property, plant and equipment, net		**(269)**	(8,450)
Write-off of items of property, plant and equipment		**708**	7,842
Foreign exchange differences, net		**769**	(4,271)

* The cost of sales for the year amounting to HK$3,424,213,000 (2011: HK$3,016,631,000) included depreciation charges of HK$191,279,000 (2011: HK$188,914,000), amortisation of land lease payments of HK$1,049,000 (2011: HK$363,000), employee benefit expense of HK$1,007,110,000 (2011: HK$875,182,000) and operating lease rentals of HK$290,637,000 (2011: HK$251,539,000).

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	
	2012 HK$'000	2011 HK$'000
Fees	**1,008**	936
Other emoluments:		
Salaries	**3,841**	3,338
Discretionary bonuses	**703**	564
Equity-settled share option benefits	**–**	134
Retirement benefit scheme contributions (defined contribution schemes)	**79**	68
	5,631	5,040

In the prior years, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company, further details of which are set out in note 33 to the financial statements. The fair value of such options, which had been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the prior year was included in the above directors' remuneration disclosures.

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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

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8. Directors' remuneration (continued)

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

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 (2011: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2011: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Salaries	**2,035**	1,897
Discretionary bonuses	**366**	309
Equity-settled share option benefits	**–**	80
Retirement benefit scheme contributions (defined contribution schemes)	**41**	36
	2,442	2,322

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

	Number of employees	
	2012	2011
Nil to HK$1,000,000	**3**	3

In the prior years, share options were granted to non-director highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 33 to the financial statements. The fair value of such options, which had been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the prior year was included in the above non-director highest paid employees' remuneration disclosures.

10. Income tax

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

	Group	
	2012	2011
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**47,553**	40,127
Overprovision in prior years	**(150)**	(36)
Current – Mainland China	**35,812**	18,741
Deferred (note 21)	**(5,995)**	4,262
Total tax charge for the year	**77,220**	63,094

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

	Group			
	2012		2011	
	HK$'000	**%**	HK$'000	%
Profit before tax	**381,208**		321,851	
Tax at the Hong Kong statutory tax rate	**62,899**	**16.5**	53,105	16.5
Difference in tax rates applied for specific provinces in Mainland China	**7,056**		10,993	
Effect of withholding tax on 5% and 10% on the distributable profits of the Group's PRC subsidiaries	**6,419**		–	
Effect of deemed income tax arising from Mainland China	**345**		453	
Adjustments in respect of current tax of previous years	**(150)**		(36)	
Income not subject to tax	**(3,383)**		(6,061)	
Expenses not deductible for tax	**2,693**		3,313	
Tax losses not recognised	**1,338**		1,275	
Others	**3**		52	
Tax charge at the Group's effective rate	**77,220**	**20.3**	63,094	19.6

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11. Profit attributable to owners of the parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a loss of approximately HK$7,529,000 excluding the dividend income from its subsidiaries of HK$140,700,000 (2011: HK$6,712,000 excluding the dividend income from its subsidiaries of HK$136,923,000) which has been dealt with in the financial statements of the Company.

12. Dividends

	Group	
	2012	2011
	HK$'000	HK$'000
Additional 2010 final – HK6.30 cents	**–**	49
Additional 2011 final – HK6.60 cents	**285**	–
Interim – HK6.20 cents (2011: HK6.20 cents) per ordinary share	**63,340**	63,067
Proposed final – HK6.80 cents (2011: HK6.60 cents) per ordinary share	**69,470**	67,141
	133,095	130,257

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 1,020,383,869 (2011: 1,016,762,628) in issue during the year.

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

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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:

	2012 HK$'000	2011 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**299,199**	254,956

	Number of shares 2012	2011
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,020,383,869**	1,016,762,628
Effect of dilution – weighted average number of ordinary shares:		
Share options	**2,742,352**	3,852,226
	1,023,126,221	1,020,614,854

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

14. Property, plant and equipment (continued)

The Group's lands included in property, plant and equipment with the net carrying amount of HK$81,044,000 (2011: HK$82,589,000) are situated in Hong Kong and are held under the following lease terms:

	2012 HK$'000	2011 HK$'000
– Long term leases	**26,429**	26,461
– Medium term leases	**54,615**	56,128
	81,044	82,589

At 31 December 2012, the net carrying amounts of the Group's property, plant and equipment held under finance leases included in the total amount of furniture, fixtures and equipment amounted to HK$642,000 (2011: HK$947,000).

As at 31 December 2012, the leasehold land and buildings with the net carrying amount of approximately HK$20,006,000 (2011: HK$56,323,000) situated in Hong Kong were pledged to secure the banking facilities granted to the Group (note 29).

15. Prepaid land lease payments

	Group	
	2012 HK$'000	2011 HK$'000
Carrying amount at 1 January	**19,723**	19,208
Additions	**45,451**	–
Recognised during the year	**(1,049)**	(363)
Exchange realignment	**395**	878
Carrying amount at 31 December	**64,520**	19,723
Current portion included in prepayments, deposits and other receivables (note 24)	**(1,190)**	(369)
Non-current portion	**63,330**	19,354

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

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16. Investment properties

	Group 2012 HK$'000	2011 HK$'000
Carrying amount at 1 January	**8,540**	7,620
Net gain from a fair value adjustment	**3,850**	920
Carrying amount at 31 December	**12,390**	8,540

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

	2012 HK$'000	2011 HK$'000
Long term leases	**9,900**	6,600
Medium term leases	**2,490**	1,940
	12,390	8,540

The Group's investment properties were revalued on 31 December 2012 by DTZ Debenham Tie Leung Limited, independent professionally qualified valuer, at HK12,390,000 on an open market, existing use basis. The investment properties were leased to third parties under operating lease arrangements, further details of which are included in note 39(a) to the financial statements.

At 31 December 2012, the Group's investment properties with a total carrying amount of HK$10,590,000 (2011: HK$7,340,000) were pledged to secure the banking facilities granted to the Group (note 29).

17. Goodwill

	Group 2012 HK$'000	2011 HK$'000
Cost at 1 January	**38,239**	22,020
Acquisition of subsidiaries (note 35)	**–**	15,504
Exchange realignment	**330**	715
Cost and net carrying amount at 31 December	**38,569**	38,239

17. Goodwill (continued)

Impairment testing of goodwill

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

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

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

	Group	
	2012	2011
	HK$'000	HK$'000
Restaurant operations	**16,766**	16,766
Bakery operations	**5,193**	5,193
Property investment	**61**	61
Poultry farm operations	**16,549**	16,219
	38,569	38,239

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% (2011: 5%), and cash flows beyond the five-year period are extrapolated using an average growth rate of 2% (2011: 2%).

Assumptions were used in the value in use calculation of the Cash-generating Units for the years ended 31 December 2012 and 2011. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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18. Investments in subsidiaries

	Company 2012 HK$'000	Company 2011 HK$'000
Unlisted shares, at cost	**428,382**	428,382
Capital contribution in respect of employee share-based compensation	**19,624**	20,299
	448,006	448,681

The amount due from a subsidiary included in the Company's current assets of approximately HK$499,546,000 (2011: HK$490,414,000) is unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2012	Percentage of equity attributable to the Company 2011	Principal activities
Directly held:					
Sky Cheer Group Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	**100%**	100%	Investment holding
Indirectly held:					
Best Harvest Food Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Production, sale and distribution of products related to restaurant operations
Elite Sky International Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Great Sky International Enterprise Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Castle Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding, restaurant operations and provision of food catering services

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18. Investments in subsidiaries (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2012	2011	Principal activities
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
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

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18. Investments in subsidiaries (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2012	2011	Principal activities
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
Tensel Investment Limited	Hong Kong	Ordinary HK$1,000,000	**100%**	100%	Investment holding
Top Eagle Development Limited	Hong Kong	Ordinary HK$40,000	**100%**	100%	Property investment
Triumph Sky Holdings Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Earth Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Skyera International Holdings Limited	Hong Kong	Ordinary HK$10,000	**100%**	100%	Property investment
Tao Heung Management Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Property investment
Tao Heung Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Provision of human resources support, 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$242,100,000	**100%**	100%	Production, sale and distribution of food products

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18. Investments in subsidiaries (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2012	2011	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
Miracle Time Enterprise Limited (note (a))	Hong Kong	Ordinary HK$1,000,000	**100%**	80%	Restaurant operations and provision of food catering services
Skybest International Investment Enterprise Limited (note (c))	Hong Kong	Ordinary HK$10,000	**100%**	100%	Restaurant operations and provision of food catering services

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18. Investments in subsidiaries (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2012	2011	Principal activities
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
廣州市新港稻香海鮮火鍋酒家有限公司*@	PRC/Mainland China	HK$8,250,000	**100%**	100%	Restaurant operations and provision of food catering services
廣州市僑光稻香海鮮火鍋酒家有限公司*@	PRC/Mainland China	HK$8,250,000	**100%**	100%	Restaurant operations and provision of food catering services
Hongyet Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
Sky Trend Holdings Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
東莞地王稻香飲食有限公司*@	PRC/Mainland China	HK$30,264,000	**100%**	100%	Restaurant operations and provision of food catering services

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18. Investments in subsidiaries (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2012	2011	Principal activities
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 (a))	British Virgins Islands	Ordinary US$10,000	**100%**	80%	Investment holding
Tai Cheong Bakery Company Limited (note (a))	Hong Kong	Ordinary HK$300,000	**100%**	80%	Production and retail of bakery products
Tai Cheong (TM) Co., Limited (note (a))	Hong Kong	Ordinary HK$10,000	**100%**	80%	Provision of promotion services
廣州天暉稻香飲食有限公司*@	PRC/Mainland China	HK$18,000,000	**100%**	100%	Restaurant operations and provision of food catering services
廣州市百興畜牧飼料有限公司**@ Guangzhou Baixing Pasturage and Feed Co., Ltd. (note (b))	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. (note (b))	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. (note (b))	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%**	–	Restaurant operations and provision of food catering services

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18. Investments in subsidiaries (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2012	2011	Principal activities
瀋陽迎喜餐飲有限公司*@	PRC/Mainland China	HK$18,000,000	**100%**	–	Restaurant operations and provision of food catering services
武漢漢街稻香飲食有限公司*@	PRC/Mainland China	HK$18,000,000	**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%**	–	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 the remaining equity interest in both Miracle Time Enterprise Limited ("Miracle Time") and Tai Cheong Holdings Group Limited and its subsidiaries (the "Tai Cheong Group"). Thereafter, Miracle Time and the Tai Cheong Group became 100% owned subsidiaries of the Group. Further details of the transaction are included in notes 36(a) and 36(b), respectively, to the financial statements.

(b) During the prior year, the Group acquired a 70% equity interest in Guangzhou Baixing Pasturage and Feed Co., Ltd. ("Baixing") (廣州市百興畜牧飼料有限公司), Guangzhou Rongli Poultry Co., Ltd. ("Rongli") (廣州市榮利家禽有限公司) and Guangzhou Yisheng Poultry Co., Ltd. ("Yisheng") (廣州益生種禽有限公司). Further details of the acquisition are included in note 35 to the financial statements.

(c) During the prior year, the Group acquired an additional 20% equity interest in Skybest International Investment Enterprise Limited ("Skybest"), which became a 100% owned subsidiary of the Group thereafter. Further details of the transaction are included in note 36(c) to the financial statements.

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

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19. Investments in associates

	Group	
	2012	2011
	HK$'000	HK$'000
Share of net assets	**1,283**	1,284
Goodwill on acquisition	**122**	122
	1,405	1,406
Loan to an associate	**7,334**	2,062
Provision for impairment	**(152)**	(152)
	8,587	3,316

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

Particulars of the associates are as follows:

Company name	**Particulars of issued shares held**	**Place of incorporation**	**Percentage of ownership interest attributable to the Group**		**Principal activities**
			2012	2011	
Tin Park Limited	Ordinary shares of HK$1 each	Hong Kong	**39%**	39%	Dormant
World Wider International Limited	Ordinary shares of HK$1 each	Hong Kong	**39%**	39%	Dormant
Baker Limited@ (Note)	Ordinary shares of HK$1 each	Hong Kong	**40%**	40%	Investment holding

Note: In January 2013, the Group acquired an additional 20% equity interest in Baker Limited at a cash consideration of HK$2,000. Baker Limited became a 60% owned subsidiary of the Group thereafter.

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

The above associates were indirectly held by the Company.

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19. Investments in associates (continued)

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

	2012 HK$'000	2011 HK$'000
Assets	25,206	16,191
Liabilities	(22,026)	(13,074)
Losses	(28)	(105)

20. Biological assets

Movements of the biological assets are summarised as follows:

	Immature chicken breeders HK$'000	Mature chicken breeders HK$'000	Broilers HK$'000	Pig breeders HK$'000	Pig commodities HK$'000	Total HK$'000
Acquisition of subsidiaries (note 35)	603	1,855	3,974	3,038	5,383	14,853
Increase due to purchases	459	–	55,218	–	–	55,677
Additional costs incurred	5,259	7,560	28,919	4,660	10,483	56,881
Decrease due to retirement and deaths	(147)	(305)	(70)	–	(736)	(1,258)
Decrease due to sales	(162)	(3,704)	(85,106)	(478)	(16,540)	(105,990)
Transfers	(4,474)	4,465	9	(4,556)	4,556	–
Transfer to inventories	–	(8,379)	–	–	–	(8,379)
Change in fair value less costs to sell	–	–	(199)	–	(641)	(840)
Exchange realignment	28	85	362	139	514	1,128
At 31 December 2011 and 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	3,050	633	5,702	2,087	8,920	20,392

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20. Biological assets (continued)

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

	2012	2011
Immature chicken breeders	**59,871**	42,044
Mature chicken breeders	**18,748**	22,412
Broilers	**182,180**	187,466
Pig breeders	**1,013**	1,210
Pig commodities	**8,440**	4,044
	270,252	257,176

Analysed for reporting purposes as:

	2012 HK$'000	2011 HK$'000
Current assets	**18,305**	9,269
Non-current assets	**2,087**	2,803
At the end of the reporting period	**20,392**	12,072

The immature chicken breeders and mature chicken breeders are primarily held for further growth for the production of broilers and are classified as current assets. The immature 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.

21. Deferred tax

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

Deferred tax assets

Group

	Depreciation in excess of related depreciation allowance HK$'000	Losses available for offsetting against future taxable profits HK$'000	Total HK$'000
At 1 January 2011	33,790	29,917	63,707
Deferred tax credited/(charged) to the income statement during the year (note 10)	4,400	(5,355)	(955)
Exchange differences	280	450	730
Gross deferred tax assets at 31 December 2011 and 1 January 2012	38,470	25,012	63,482
Deferred tax credited to the income statement during the year (note 10)	4,472	9,109	13,581
Exchange differences	130	111	241
Gross deferred tax assets at 31 December 2012	43,072	34,232	77,304

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 2011	70	9,531	–	9,601
Deferred tax charged to the income statement during the year (note 10)	–	3,307	–	3,307
Acquisition of subsidiaries (note 35)	–	3,110	–	3,110
Exchange differences	–	184	–	184
Gross deferred tax liabilities at 31 December 2011 and 1 January 2012	70	16,132	–	16,202
Deferred tax charged/(credited) to the income statement during the year (note 10)	(70)	1,237	6,419	7,586
Exchange differences	–	93	–	93
Gross deferred tax liabilities at 31 December 2012	–	17,462	6,419	23,881

21. Deferred tax (continued)

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

	2012 **HK$'000**	2011 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**66,621**	62,934
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(13,198)**	(15,654)
	53,423	47,280

Deferred tax assets have not been recognised in respect of tax losses of HK$68,413,000 (2011: HK$60,304,000) 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 2012, a deferred tax of HK$6,419,000 (2011: nil) has been recognised for withholding taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries established in Mainland China.

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

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

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22. Inventories

	Group	
	2012	2011
	HK$'000	HK$'000
Food and beverages, and other operating items for restaurant and bakery operations	**163,101**	122,505
Frozen poultry farm products	**4,910**	4,430
Raw materials for the production of animal feeds	**5,448**	7,898
	173,459	134,833

23. Trade receivables

The Group's trading terms with its customers are mainly on cash and credit card settlement. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	Group	
	2012	2011
	HK$'000	HK$'000
Neither past due nor impaired	**12,580**	13,778
Less than 1 month past due	**6,285**	7,525
1 to 3 months past due	**5,117**	3,682
Over 3 months past due	**3,341**	735
	27,323	25,720

Receivables that were neither past due nor impaired relate mainly to credit card receivables from banks for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

24. Prepayments, deposits and other receivables

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**33,079**	34,629	**212**	286
Prepaid land lease payments (note 15)	**1,190**	369	**–**	–
Deposits and other receivables	**44,921**	47,308	**–**	–
	79,190	82,306	**212**	286

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

25. Cash and cash equivalents and pledged time deposits

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**421,144**	311,445	**849**	412
Time deposits	**12,052**	11,914	**–**	–
	433,196	323,359	**849**	412
Less:				
Pledged deposits with original maturity over 3 months but within 1 year for short term bank borrowings	**(12,052)**	(11,914)	**–**	–
	421,144	311,445	**849**	412

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to HK$250,698,000 (2011: HK$127,864,000). 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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26. Restricted cash

At 31 December 2011, the Group had approximately HK$71,057,000 of cash which was restricted as to use for the purchasing a building situated in Dongguan, PRC. All of the restricted cash dominated in RMB was released during the year.

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	
	2012	2011
	HK$'000	HK$'000
Within 1 month	**195,266**	162,295
1 to 2 months	**28,828**	8,927
2 to 3 months	**7,030**	3,099
Over 3 months	**13,347**	4,950
	244,471	179,271

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

28. Other payables and accruals

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**70,510**	71,242	**424**	295
Accruals	**282,906**	224,591	**835**	740
Deferred revenue	**2,583**	3,338	**–**	–
	355,999	299,171	**1,259**	1,035

Other payables are non-interest-bearing.

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29. Interest-bearing bank borrowings

	2012			2011		
Group	**Effective interest rate (%)**	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
– Bank loans, secured	**0.77**	**2013**	**60,000**	0.35	2012	21,382
– Bank loans which contain a repayment on demand clause, secured	**2.68**	**2013-2020**	**14,485**	3.82	2013-2020	486
			74,485			21,868

Term loans of the Group with carrying amount of HK$74,485,000 (2011: HK$21,868,000) 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$424,000 (2011: HK$486,000) 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 with terms as follows:

	2012 HK$'000	2011 HK$'000
Analysed into:		
Bank loans repayable		
Within one year	**74,061**	21,382
In the second year	**62**	61
In the third to fifth years, inclusive	**198**	193
Beyond five years	**164**	232
	74,485	21,868

Notes:

(a) 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$20,006,000 (2011: HK$56,323,000);

(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$10,590,000 (2011: HK$7,340,000); and

(iii) the pledge of certain of the Group's time deposits amounting to HK$12,052,000 (2011: HK$11,914,000).

30. Finance lease payables

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

At 31 December 2012, 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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**327**	341	**313**	323
In the second year	**240**	239	**230**	225
In the third to fifth years, inclusive	**251**	412	**244**	396
Total minimum finance lease payments	**818**	992	**787**	944
Future finance charges	**(31)**	(48)		
Total net finance lease payables	**787**	944		
Portion classified as current liabilities	**(313)**	(323)		
Non-current portion	**474**	621		

The above finance leases are denominated in Hong Kong dollars and bear interest at rates ranging at 3.0% to 5.4% (2011: 3.0% to 5.4%) per annum.

31. Due to non-controlling shareholders of subsidiaries

The amounts due to a non-controlling shareholder of subsidiaries are unsecured, interest-free and not repayable within 1 year (2011: dividend payable of HK$60,000 was repayable on demand).

32. Share capital

	Company 2012 HK$'000	Company 2011 HK$'000
Authorised:		
23,400,000,000 (2011: 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 (2011: 1,017,293,000) ordinary shares of HK$0.10 each	**102,161**	101,729

A summary of the transactions during the years ended 31 December 2011 and 2012 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 2011	1,016,141,000	101,614	316,526	418,140
Share options exercised (note a)	1,152,000	115	3,945	4,060
At 31 December 2011 and 1 January 2012	1,017,293,000	101,729	320,471	422,200
Share options exercised (note b)	4,318,000	432	14,749	15,181
At 31 December 2012	1,021,611,000	102,161	335,220	437,381

Notes:

(a) In the prior year, the subscription rights attaching to 1,152,000 share options were exercised at a subscription price of HK$1.59 per share (note 33), resulting in the issue of 1,152,000 ordinary shares of HK$0.1 each for a total cash consideration of approximately HK$1,832,000 and additional share capital of HK$115,000 and share premium of HK$1,717,000 (before share issue expenses). In addition, the attributable share option reserve of HK$2,228,000 was transferred to the share premium account.

(b) During the 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.

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; (ii) the exercise price of the share options; and (iii) the vesting period, are different as further detailed below.

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

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 offer of the share options or the expiry date of the Schemes, if earlier.

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 exercisable in the following manner:

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

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

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

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

	2012		2011	
	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**	**9,198**	1.59	10,500
Exercised during the year	**1.59**	**(4,318)**	1.59	(1,152)
Forfeited during the year	**1.59**	**(350)**	1.59	(150)
At 31 December	**1.59**	**4,530**	1.59	9,198

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 (2011: HK$2.80 per share).

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

No share options were granted during the year and forfeited share options with an aggregate carrying amount of HK$675,000 were transferred from share option reserve to retained earnings during the year. In the prior year, the Group recognised a share option expense of approximately HK$1,019,000 and forfeited share options with an aggregate carrying amount of HK$277,000 were transferred from share option reserve to retain earnings during that year. The fair value of the share options granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2007 was HK$29,310,000 (HK$1.93 each).

At 31 December 2012, the Company had 4,530,000 (2011: 9,198,000) share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 0.44% 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 4,530,000 (2011: 9,198,000) additional ordinary shares of the Company and additional share capital of HK$453,000 (2011: HK$920,000) and share premium of HK$6,750,000 (2011: HK$13,705,000) (before share issue expenses).

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 38 to 39 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.

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 2011		316,526	19,206	9	427,527	4,207	767,475
Profit and total comprehensive income for the year	11	–	–	–	–	130,211	130,211
Issue of shares	32	3,945	(2,228)	–	–	–	1,717
Equity-settled share option arrangements	33	–	1,019	–	–	–	1,019
Transfer of share option reserve upon the forfeiture or expiry of share options	33	–	(277)	–	–	–	(277)
Additional 2010 dividend	12	–	–	–	–	(49)	(49)
Interim 2011 dividend	12	–	–	–	–	(63,067)	(63,067)
Proposed final 2011 dividend	12	–	–	–	–	(67,141)	(67,141)
At 31 December 2011 and 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 or expiry 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		335,220	8,730	9	427,527	4,237	775,723

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 combinations

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

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

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

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

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

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

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36. Acquisition of additional interests in subsidiaries without change of control

During the current and prior years, the Group has the following transactions with non-controlling shareholders of subsidiaries.

(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.

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

37. Major non-cash transactions

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$353,000 (2011: HK$1,489,000) for such obligation.

In the prior 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 lease of HK$719,000.

38. Contingent liabilities

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank guarantees given in lieu of utility and property rental deposits	**28,039**	26,249	**–**	–
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**220,800**	236,100

As at 31 December 2012, 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$74,000,000 (2011: HK$21,324,000).

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 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2012 HK$'000	2011 HK$'000
Within one year	**6**	6

(b) As lessee

The Group leases certain of its office premises and restaurants 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 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2012 HK$'000	2011 HK$'000
Within one year	**227,589**	238,326
In the second to fifth years, inclusive	**458,835**	393,876
Beyond five years	**270,563**	184,269
	956,987	816,471

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

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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:

	2012 HK$'000	2011 HK$'000
Contracted, but not provided for:		
Property, plant and equipment	**12,485**	76,423
Building	**74,993**	–
	87,478	76,423

41. Related party transaction

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

	2012 HK$'000	2011 HK$'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 (2011: HK$4,000).

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

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

	2012 HK$'000	2011 HK$'000
Loans and receivables:		
Loan to an associate (note 19)	**7,334**	2,062
Rental deposits	**101,043**	94,278
Other deposit	**–**	1,648
Trade receivables	**27,323**	25,720
Financial assets included in prepayments, deposits and other receivables (note 24)	**44,921**	47,308
Pledged deposits	**12,052**	11,914
Restricted cash	**–**	71,057
Cash and cash equivalents	**421,144**	311,445
	613,817	565,432

Financial liabilities

	2012 HK$'000	2011 HK$'000
Financial liabilities at amortised cost:		
Trade payables	**244,471**	179,271
Financial liabilities included in other payables and accruals	**340,635**	283,405
Interest-bearing bank borrowings	**74,485**	21,868
Finance lease payables	**787**	944
Due to non-controlling shareholders of subsidiaries	**11,623**	11,451
	672,001	496,939

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42. Financial instruments by category (continued)

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

Company

Financial assets

	2012 **HK$'000**	2011 HK$'000
Loans and receivables:		
Due from a subsidiary	**499,546**	490,414
Cash and cash equivalents	**849**	412
	500,395	490,826

Financial liabilities

	2012 **HK$'000**	2011 HK$'000
Financial liabilities at amortised cost:		
Other payables and accruals	**1,259**	1,035

43. Fair value and fair value hierarchy

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

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

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

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

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 2012 and 2011 would have decreased/increased the Group's profit before tax by HK$372,000 and HK$109,000, 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 economic development and political changes domestically and internationally, and the demand and supply of the RMB. The appreciation or devaluation of the RMB against the Hong Kong dollar may also have an impact on the operating results of the Group.

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 objectives are 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

	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	**–**	**340,635**	**–**	**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	**585,433**	**12,114**	**672,245**

Group

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

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44. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Company

	Less than 1 year	
	2012	2011
	HK$'000	HK$'000
Other payables and accruals	**1,259**	1,035

Note:
Included in the above interest-bearing bank borrowings are term loans with carrying amount of HK$74,485,000 (2011: HK$21,868,000). 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 that loans as at the end of the reporting period, based on the contractual undiscounted payments and ignoring the effect of any repayment on demand clause is as follows:

	Less than 1 year	**1 to 5 years**	**Over 5 years**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2012	74,239	290	169	74,698
As at 31 December 2011	21,410	290	242	21,942

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 2012 and 31 December 2011.

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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

	2012 **HK$'000**	2011 HK$'000
Total borrowings	**75,272**	22,812
Total equity attributable to owners of the parent	**1,558,084**	1,378,503
Gearing ratio	**4.8%**	1.6%

45. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 21 March 2013.

PRINCIPAL PROPERTIES HELD FOR INVESTMENT PURPOSES

Investment properties

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

FIVE-YEAR FINANCIAL SUMMARY

Financial summary

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

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**4,055,809**	3,576,099	2,937,226	2,610,410	2,444,316
Cost of sales	**(3,424,213)**	(3,016,631)	(2,491,576)	(2,208,749)	(2,076,033)
Gross profit	**631,596**	559,468	445,650	401,661	368,283
Other income and gains, net	**26,949**	33,395	18,602	13,605	12,142
Selling and distribution expenses	**(85,174)**	(92,781)	(67,557)	(49,565)	(43,413)
Administrative expenses	**(190,850)**	(169,088)	(117,957)	(107,377)	(103,629)
Other expenses	**(708)**	(8,682)	(914)	(1,096)	(1,998)
Finance costs	**(604)**	(461)	(495)	(914)	(2,406)
Share of profits and losses of associates, net	**(1)**	–	–	175	189
PROFIT BEFORE TAX	**381,208**	321,851	277,329	256,489	229,168
Income tax expense	**(77,220)**	(63,094)	(55,590)	(46,136)	(37,308)
PROFIT FOR THE YEAR	**303,988**	258,757	221,739	210,353	191,860
Attributable to:					
Owners of the parent	**299,199**	254,956	219,386	208,530	189,129
Non-controlling interests	**4,789**	3,801	2,353	1,823	2,731
	303,988	258,757	221,739	210,353	191,860

Assets, liabilities and non-controlling interests

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**2,319,447**	1,950,855	1,626,456	1,445,896	1,358,785
TOTAL LIABILITIES	**(742,332)**	(555,123)	(395,210)	(317,775)	(326,667)
NON-CONTROLLING INTERESTS	**(19,031)**	(17,229)	(2,898)	(1,671)	(2,311)
	1,558,084	1,378,503	1,228,348	1,126,450	1,029,807

TAO HEUNG HOLDINGS LIMITED

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

www.taoheung.com.hk