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 2010

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* For identification purposes only

Tao Square
稻坊
Cheers Palace
迎囍皇宫
Chao Inn
HIPOT
迎囍大酒樓
CHEERS RESTAURANT
領鮮
TCT

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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. 13 Au Pui Wan Street, Fo Tan
Shatin, New Territories, Hong Kong

Principal Share Registrar

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

Hong Kong Branch Share Registrar

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

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

Principal Auditors
Ernst & Young

Financial Advisor
UOB (Asia) Hong Kong Limited

Stock Code
573

Website
www.taoheung.com.hk

Financial Highlights and Calendar

Key Financial Ratios	Notes	2010 HK$'000	2009 HK$'000	Increase/ (Decrease) %
Performance				
Revenue		2,937,226	2,610,410	12.5%
Profit attributable to owners of the parent		219,386	208,530	5.2%
Gross profit margin		15.2%	15.4%	(1.3%)
Net profit margin	1	7.5%	8.0%	(6.3%)
		HK cents	HK cents	
Per Share Data				
Earnings per share				
– Basic		21.59	20.54	5.1%
– Dilutive		21.49	20.52	4.7%
Interim dividend per share		6.20	4.65	33.3%
Special dividend per share		–	1.55	N/A
Proposed final dividend per share		6.30	6.30	–

	Notes	2010 HK$'000	2009 HK$'000	Increase/ (Decrease) %
Total assets		1,626,456	1,445,896	12.5%
Net assets		1,231,246	1,128,121	9.1%
Cash and cash equivalents		382,655	427,535	(10.5%)
Net cash	2	371,382	399,336	(7.0%)
Liquidity and Gearing				
Current ratio	3	1.5	2.0	(25.0%)
Quick ratio	4	1.3	1.8	(27.8%)
Gearing ratio	5	0.9%	2.5%	(64.0%)
		HK cents	HK cents	
Per Share Data				
Net assets per share	6	121.17	111.02	9.1%
Net cash per share	7	36.55	39.30	(7.0%)

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 1,016,141,000 shares (2009: 1,016,141,000 shares).

7. Net cash per share is calculated based on the number of 1,016,141,000 shares (2009: 1,016,141,000 shares).

Calendar

Announcement of interim results	26 August 2010
Announcement of annual results	24 March 2011
Despatch of annual report to shareholders	18 April 2011
Closure of register of members for the proposed final dividend	23 May 2011 to 26 May 2011
Annual general meeting	26 May 2011
Dividends	
Interim: HK6.20 cents per share paid	7 October 2010
Final: HK6.30 cents per share payable on	31 May 2011

Chairman's Statement

Marching towards the Group's 20th Anniversary, we will continue to devote our effort in providing exceptional food, services and dining experiences to customers, achieving long-term sustainable growth and thus delivering fair returns to our shareholders.

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 2010.

Driven by improving consumption sentiment in Mainland China and new shop openings, I am glad to report that Tao Heung realised stable progress in 2010, highlighted by a solid second half year when business performance picked up. Consequently, we were able to achieve double-digit percentage growth in overall turnover. Such growth was achieved despite having to brave a difficult operating environment resulting from rising food and utility costs caused by inflation. To counter such increases, we relied on our logistics centres in Dongguan and Fotan which, with enhanced efficiency, delivered greater cost savings. Further aiding our cause was the ability to maintain labour cost and rent at manageable levels. A modest increase in profitability was therefore achieved, aided by a strong performance from our Mainland China operations.

Taking into consideration the Group's healthy financial position and our commitment to delivering fair returns to shareholders, I have recommended the Board approve the payment of a final dividend of HK6.3 cents per share. With the inclusion of an interim dividend of HK6.2 cents per share already paid, total dividend per share will amount to HK12.5 cents for the financial year, representing a payout ratio of 57.9%.

Progress in Hong Kong amidst challenging times

Our Hong Kong business continued to achieve stable growth during the year, registering double-digit revenue increase. Five new shops were opened and were major contributors to the upturn. In view of somewhat lacklustre performance in the first half year, we decided to alter our marketing strategy, placing greater emphasis on tailor-made product promotions, including different themed Royal Feast (主題皇席宴) and hotpot promotions such as The Premier Almond Hotpot Soup Series (杏運嘟嘟鍋). These campaigns succeeded in boosting customer traffic and average spending per person, contributing to the Group's better performance in the second half year. What is more, we were able to attract customers by means of offering competitively priced dishes throughout the year, whereas our peers opted to raise prices amid rising food costs. Though a slight decline in gross profit margin was recorded, this was in the face of food costs rising by more than 10% during the review period. Also, despite inflationary pressure, we still managed to maintain profitability by keeping ingredient prices stable through the signing of long-term contracts with suppliers. As well, our Dongguan Logistics Centre achieved higher output and utilisation rates, and with greater food supply to the Group's restaurants, our food costs consequently remained stable.

I also take pleasure in reporting that our Tai Cheong Bakery business recorded a significant increase in revenue; up by over 60% due in large part to the opening of new shops. Ongoing efforts to expand product offerings and introduce new packaging also contributed to such growth.

Business in Mainland China strengthened by rising prosperity

With regard to the Mainland China operations, revenue gains of more than 20% were achieved, the result of further shop openings and our ability to capitalise on a fast expanding economy and growing middle-class population. Two new outlets, namely "Tao Heung" and "Cheers Palace" (迎囍皇宮), were opened in Guangzhou and Shenzhen respectively, and were well received by the public.

Having amassed over a decade's worth of experience in the banqueting segment, which was subsequently leveraged by our Mainland China operations, we were extremely pleased to be named "King of Wedding Banquet" (婚宴天皇) at King of Catering Awards 2010 organised by King of Wedding Banquet of Guangzhou. This highlighted the effectiveness of our branding efforts among consumers in the wedding and banquet markets. Our decision to enter the aforesaid markets has proven to be the right one as revenue derived from such activities has continued to grow. Also worth noting, profitability has significantly increased due to enhanced efficiency achieved at our Dongguan Logistics Centre.

Outlook

In the year ahead, we expect ongoing challenges in the form of rising labour, food and utility costs in Hong Kong and Mainland China due to continuously growing inflationary pressure and in particular, the introduction of a minimum wage scheme in Hong Kong.

Nevertheless, we remain confident in our ability to overcome the said challenges by leveraging the Group's competitive edges in cost control. As a leading Chinese restaurant group, we possess the knowledge and prowess that are essential for weathering uncertain market conditions. Our track record clearly shows that we have been able to emerge better and stronger following the sternest tests, which have included the 1997 financial crisis, 2003 SARS outbreak, and 2008 global downturn.

In terms of controlling costs, we will continue to place utmost effort on curbing expenses. An important ally in this cause will be our Tai Po Logistics Centre, which commenced operation in January 2011 as scheduled. The facility, with significantly greater storage and food processing capacity than our Fotan counterpart, will deliver food to a maximum of 150 restaurants, and allow the Group to conduct more bulk purchases as well as distribute food more cost effectively.

Also an important part of our vertical integration effort has been the acquisition of poultry businesses, which are involved in activities ranging from chicken and pig rearing, chicken slaughtering to poultry wholesaling. These businesses will enable us to secure a stable supply of chickens, which is our staple ingredient; ensure we protect our reputation for food quality; and maintain food costs at sustainable levels.

Complementing our cost control efforts will be a further push towards penetrating the Mainland China market. To capture greater market share, we will open four to five new shops in 2011 and will continue to focus on developing operations in southern China, though consideration will be made on developing in the eastern or northern regions of Mainland China as well. We will also seek to strengthen our presence in the wedding and banquet market.

Looking at Hong Kong, we intend to set up five to six shops in the upcoming year, thus bolstering our presence in the Territory still further. To maintain customer traffic, we will continue to use a multi-branding strategy and marketing efforts that best capture the attention of target customers. As well, the Tai Cheong Bakery business will be strengthened via the introduction of more products.

While dedicated to the ongoing development of Tao Heung, we are also committed to being a responsible corporate citizen. Underscoring this commitment is our full sponsorship of the Chinese Cuisine Culture Development Programme for food and beverage industry professionals, which has been organized by the Vocational Training Council ("VTC") since 2000. This represents the first course that is focused on Chinese Restaurant Management, and is pioneered by the Hong Kong Institute of Vocational Education ("IVE"). The programme has been widely welcomed by industry players and considered a success, hence, we plan to expand our efforts to include provision of a campus and sponsorship of a full-time college, named VTC – Tao Miao Institute of Professional Development for the Catering Industry (VTC飲食專業發展稻苗學院). To be operated by IVE, Hong Kong Quality Assurance Agency and Occupational Safety & Health Council, the college will be located at the defunct Fotan Logistics Centre. With enrolment targeted to commence in 2012, the programme will be offered to industry practitioners in order to raise management standards and professionalism of the Chinese catering industry.

Awards and Recognition

We are delighted to report that our multi-branding strategy has paid off, as evidenced by the various marketing and branding awards collected during the year, including the Certificate of Merit – HKMA/TVB Awards for Marketing Excellence 2010 (2010年度HKMA/TVB傑出市場策劃獎—優異獎) from HKMA and TVB, and Judging Panel Award (Catering Services) – Hong Kong Proud Award 2010 (2010年香港驕傲品牌評審團大獎(餐飲服務類別) from Ming Pao. Besides, with the spirit of pursuing food safety, the Dongguan Logistics Centre has been certified ISO 22000 by China Quality Certification Centre in 2010, which proved the practice of the food safety management system in Tao Heung. Moving forward, we remain committed to bolstering our brand value and expect to generate more positive results from such commitment.

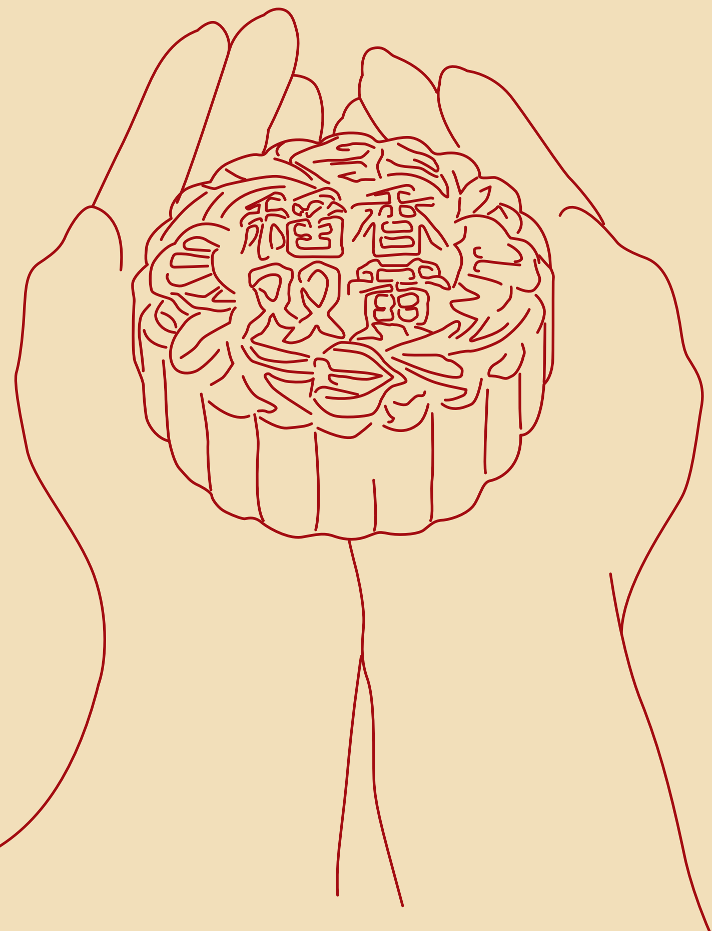
Appreciation

On behalf of the Board, I would like to extend my gratitude to the management and staff for their dedication in 2010. I also wish to express my appreciation to Tao Heung's customers and business partners for their continuous support. We will strive to achieve long-term business growth and generate satisfactory returns for our shareholders.

Chung Wai Ping
Chairman

Hong Kong
24 March 2011

Management Discussion and Analysis



Multi-Branding

Tao Heung's multi-branding strategy guarantees it offers a wide variety of dining styles to customers with different tastes and preferences and for different occasions.

The Board is pleased to announce the Group's annual results for the year ended 31 December 2010. Owing to improving consumption sentiment and strong business growth in Mainland China, Tao Heung was able to continue achieving steady progress and realised better performance towards the second half year. Customised marketing campaigns were introduced to sustain customer traffic and raise awareness of brands under the Group, contributing to further business growth. Despite the volatile operating environment, Tao Heung was able to contain labour costs and rent at comparable levels with 2009. In view of rising food costs, the Group further tightened control of operating expenses and bolstered efficiency via process automation help maintaining profitability.

Financial Results

The Group's total revenue increased by 12.5% year on year to approximately HK$2,937.2 million (2009: HK$2,610.4 million). This was attributed partly to the opening of five new shops in Hong Kong and two new shops in Mainland China. Also contributing to the revenue increase was solid progress achieved by the Mainland China operations, benefiting from robust economic growth as well as rising disposable income of local consumers. Customer traffic in Hong Kong remained steady due to the use of promotions to raise public interest.

Gross profit margin dipped by 0.2% point whereas EBITDA increased by 8.0% to HK$453.8 million, up from HK$420.2 million in 2009. Profit attributable to owners of the parent was HK$219.4 million, an increase of 5.2% from HK$208.5 million achieved over the same period last year. As aforementioned, profitability remained at a relatively stable level due to the adoption of stringent cost control measures, including the signing of long-term bulk-purchase contracts for food ingredients at discounted prices as well as increased food supply via the Group's logistics centres. Stable labour cost and rent also helped to alleviate cost pressures.

Hong Kong Operations

The Group achieved steady progress in the Hong Kong market, recording revenue of HK$2,393.5 million, or a year-on-year increase of 10.8%, accounting for 81.5% of the Group's total revenue. EBITDA achieved a moderate growth by 3.2% as compared to last year. Among the factors that resulted in such moderate growth included mainly our strategic advertising investment in self-branded mooncakes, which called for an additional marketing expenditure of HK$8 million in 2010. The network of restaurants across the Territory continued to grow, rising by five new outlets in 2010, thus contributing to a total of 65 outlets as at 31 December 2010. Among the new restaurant openings included "Joyous One", located in Tsim Sha Tsui. Launched in June 2010, this totally new brand – consistent with Tao Heung's strategy of multi-branding – received a warm reception from middle-class consumers. Towards the second half year, the Group began adjusting its marketing strategies, stimulating consumption by launching product promotions and themed cuisine menus, which proved more successful than deep discounts in boosting customer traffic. Consequently, higher revenue was generated in the second half year when compared to the preceding six months. Through continuous effort to boost customer traffic in the second half year, the Group was able to narrow down the decline in same store sales to 2.2% for the full year compared to the decline of 3.7% in the first half of 2010.

Amid inflationary pressure that translated into more than 10% rise in food cost, the Group managed to minimise the slump in gross profit margin yet at the same time keep menu prices unchanged. Profit attributable to owners of the parent contracted by 3.0% to HK$175.9 million (2009: HK$181.3 million). As part of efforts to maintain profitability, the Group reached contracts with suppliers to bulk purchase food ingredients at fixed prices on an annual basis, including frozen food, noodles, edible oils and seasonings. Further cost saving was derived from the Dongguan Logistics Centre, which played a significant role in supplying more food to the Group's Hong Kong restaurants, as well as promoting direct sourcing from neighbouring farms in Mainland China.

With respect to the Tai Cheong Bakery business, the Group realised significant revenue growth from the operation, which was up 65.6% to HK$56.3 million when compared to same period last year (2009: HK$34.0 million). The outstanding performance was largely due to new shop openings, having established seven new outlets during the year, thus bringing total store count to 16 as at 31 December 2010. Ongoing efforts to expand product offerings and introduction of new packaging also contributed to the growth. Among the new products offered included self-branded beverages and Western baked goods, which were well received by consumers.

Mainland China Operations

Significant growth was achieved in Mainland China. The Group recorded revenue of HK$543.8 million, up 20.6% over the same period last year (2009: HK$451.0 million). Such progress was driven by rising consumer confidence paralleled with increasing public affluence, spurring demand for reputable, quality catering services. Since the environment is ripe for Tao Heung to expand its business in Mainland China, it opened two new outlets during the year, specifically, "Tao Heung" in Guangzhou, and "Cheers Palace" in Shenzhen. The Group thus operates a total of 14 outlets as of 31 December 2010. The Group's strategy to tap the fast growing wedding and banquet markets also played contributing roles in revenue growth.

For the year, the Mainland China operations recorded a modest improvement in gross profit margin despite the rapid rise in food ingredient costs. Same store sales growth of 5.9% was recorded with EBITDA increasing significantly by 24.3% to HK$119.0 million, up from HK$95.7 million in 2009. More dramatically, profit attributable to owners of the parent increased by 59.5% to HK$43.4 million. Improved profitability was the result of increased revenue, enhanced efficiency and greater food supply from the Dongguan Logistics Centre.

Logistics Centres

The Fotan and Dongguan logistics centres continued to increase their food supplies to the Group's restaurants and achieved greater efficiency, resulting in more cost savings and control over food quality. Moreover, the Group increased bulk purchasing of food raw materials from their sources, thereby realising further cost cuts. Having been operational since mid-2007, the Dongguan Logistics Centre achieved profitability in 2010, just three years following its opening, though still in line with our management's forecast. Currently, the Dongguan facility has an output of around 800 tonnes per month and the targeted output level is estimated to reach 1,000 tonnes per month by the end of 2011.

Both the Fotan and Dongguan logistics centres have proven to be invaluable in driving down costs which was evidenced by the track record of gross margin improvements during the past few years. Through stepping up the utilization rate of the Dongguan Logistics Centre, we were able to slightly enhance gross profit margin of our Mainland China operations in the face of high inflationary pressure in 2010. However, as the Fotan Logistics Centre had already reached full utilisation rate, a slight decline in gross profit margin was resulted in our Hong Kong operations. To address growing inflation-related concerns, the Group's new Tai Po Logistics Centre which encompassing approximately 200,000 square feet floor area and possessing roughly five times the production capacity of its Fotan counterpart has been constructed and commenced operation as of January 2011. Already, the Tai Po site has reached an average output of approximately 700 tonnes per month and is targeted to reach 910 tonnes per month by the end of 2011. Representing a total investment of HK$250 million, the associated depreciation charges will be expensed in upcoming years starting from 2011 but the management is confident that the capital investment will facilitate our long-term development.

Peripheral Business

The peripheral business achieved stable growth with revenue up 70.5% to approximately HK$89.5 million (2009: HK$52.5 million). Airline catering, pre-packaged chilled food and chilled food continued to perform well, generating steady revenue for the Group. The Group actively expanded its festive food business as well, investing in promotional campaigns for those products. These campaigns were well received by the general public resulting in encouraging sales performance. With maturing production technology and brand awarenesss, the management anticipates even greater profit contributions from this business segment in the future.

Financial Resources and Liquidity

The Group maintained a strong financial and liquidity position during the year under review. As at 31 December 2010, the Group's total assets increased to approximately HK$1,626.5 million (2009: approximately HK$1,445.9 million) while the total equity increased to approximately HK$1,231.2 million (2009: approximately HK$1,128.1 million).

As at 31 December 2010, the Group had cash and cash equivalents of approximately HK$382.7 million. After deducting total interest-bearing bank borrowings of approximately HK$11.3 million, the Group had a net cash surplus position of approximately HK$371.4 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 2010, the Group's gearing ratio (defined as total interest-bearing bank borrowings plus finance lease payable divided by total shareholders' equity) was reduced to 0.9% (2009: 2.5%).

Capital Expenditure

Capital expenditure for the year ended 31 December 2010 amounted to approximately HK$371.5 million and capital commitments as at 31 December 2010 amounted to approximately HK$48.0 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 acquisition of the poultry business and the construction of Tai Po Logistics Centre.

Contingent Liabilities

As at 31 December 2010, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$28.1 million (2009: approximately HK$28.0 million).

Foreign Exchange Risk Management

The Group's sales and purchases for the year ended 31 December 2010 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 2010, the Group had 7,770 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 2010, approximately 10,500,000 options were outstanding under the Pre-IPO Share Option Scheme and no share options have been exercised during the year. Also, as at 31 December 2010, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

Pledge of Assets

As at 31 December 2010, the Group pledged its bank deposits of approximately HK$31.2 million, leasehold land and buildings of approximately HK$78.7 million and investment properties of approximately HK$6.5 million to secure the banking facilities granted to the Group.

Prospects

The management remains cautiously optimistic about the catering industry in 2011. This sentiment is based on the knowledge that rising labour costs in Hong Kong – induced by the implementation of minimum wage, and cost pressure from inflation, which will affect both Hong Kong and Mainland China, will result in stiff challenges.

Despite potential economic instability, the management believes that opportunities do exist and the Group can overcome obstacles by utilising its competitive advantages. Being a leader of the Chinese restaurant scene in Hong Kong, Tao Heung has amassed significant experience in weathering difficult market conditions and is committed to managing expenses and delivering high-quality catering services.

A further means of controlling cost is the poultry businesses that Tao Heung acquired in late December 2010. The acquisition will enable the Group to benefit from greater vertical integration of the food supply chain and have firsthand control over food quality. Moreover, since past records have indicated the poultry businesses to be profitable, the acquisitions are expected to deliver immediate profit contributions to the Group.

Mainland China will continue to be a key focus of the Group as the management believes that the country will provide ample growth opportunities as its economy continues expanding, creating more middle-class consumers for Tao Heung to serve. Accordingly, the Group will place greater emphasis on bolstering efficiency, employing effective cost controls and upholding food quality to capture a greater share of the Mainland China market. At the same time, the Group will enhance its network of restaurants in different cities within the Pearl River Delta. Already, the Group plans to open four to five restaurants in 2011, with two premises confirmed in Huizhou and Shenzhen respectively. Tao Heung will also continue to tap the wedding and banquet market, which will further grow inline with increasing affluence.

In Hong Kong, with inflation affecting catering operators, the Group will expand at a more moderate pace. Scheduled for 2011 are five to six new shop openings, and thus far five premises have been confirmed. While consolidating its presence in the Territory, Tao Heung will place its full effort on maintaining customer traffic, together with the reasonable average selling price of its menus and stimulate revenue contributions from new outlets. The management will continue to utilise a multi-branding strategy and enhance marketing efforts to cater for different customer segments, thereby boost sales. With support from the new Tai Po Logistics Centre, the Group will actively expand the pre-packaged food business by accessing more sales channels and participating in a greater variety of food fairs. What is more, Tao Heung will increase production of self-branded festive foods, including mooncakes and Chinese Poon Choi (盤菜), which were warmly welcomed by customers last year.

With respect to the Group's Tai Cheong Bakery business, total shop count has now reached 16, which is a respectable figure. The key objective of this segment will be enhancing efficiency and profitability by drawing more food from the logistics centres. Also keen on tapping the tourism market, the Group will entice holidaymakers by delivering products that are modern and stylishly packaged and outlets that project a welcoming, upscale image.

As logistics will continue to play a central role in the Group's profitability, enhancing the competitiveness and bolstering efficiency of its logistics centres will be ongoing endeavours. A higher degree of direct sourcing from farms in Mainland China will also be essential – and will be practiced – to realise further cost savings. With the Tai Po Logistics Centre now operational, the facility will supply food to upwards of 150 restaurants and bakery outlets; thereby help the Group take a step forward in the restaurant business and open up opportunities in peripheral businesses as well.

In the face of stern challenges ahead, the management will remain fully focused on overcoming all obstacles and will make every effort to fortify the Group's leadership position. Accordingly, the Group will strive to deliver attractive returns to shareholders and provide quality food, services and dining experiences to customers.

Directors and Senior Management

Executive Directors

Mr. Chung Wai Ping, aged 51, 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 53, 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 56, is an Executive Director and was appointed on 29 December 2005. Mr. Chung is one of our founders. Mr. Chung is primarily responsible for our quality assurance and central procurement of our two logistics centres. Mr. Chung has over 30 years of experience in the Chinese restaurants industry. Mr. Chung is a cousin of Mr. Chung Wai Ping, who is the Chairman.

Mr. Leung Yiu Chun, aged 40, 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 48, 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 49, 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 53, 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 59, 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 executive chairman of Café de Coral Holdings Limited, as well as an independent non-executive director of Starlite Holdings Limited, Kingboard Laminates Holdings Limited, Pacific Textiles Holdings Limited, and Tse Sui Luen Jewellery (International) Limited, all of which are listed on the Main Board of the Hong Kong Stock Exchange. Mr. Chan holds a double major degree in Sociology and Political Science, a Master degree in City Planning, an Honorary Doctorate degree in Business Administration, and is bestowed as Honorary Fellow from Lingnam University.

Mr. Chan is also currently an executive committee member of the Hong Kong Retail Management Association, the general committee of the Employers' Federation of Hong Kong, an appointed member of the Quality Tourism Services Association and a Board Member of the Hong Kong Tourism Board. 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.

Independent Non-executive Directors

Mr. Li Tze Leung, SBS JP, aged 56, is an Independent Non-executive Director and was appointed on 1 March 2007. Besides, he was also appointed as a member of 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 the President of H.K. & Kowloon Electrical Appliances Merchants Association Ltd., and an Executive Committee Member of Hong Kong Retail Management Association.

Professor Chan Chi Fai, Andrew, JP, aged 57, is an Independent Non-executive Director and was appointed on 9 March 2007. Besides, he was also appointed as a member of both Audit Committee and Nomination Committee on 9 June 2007. Professor Chan holds a Master degree of Business Administration from the University of California, Berkeley, U.S., a Bachelor degree of Business Administration and a Doctorate degree of Philosophy from the Chinese University of Hong Kong (CUHK). Professor Chan is currently a professor in the Department of Marketing and the Director of the EMBA programmes in the CUHK. Professor Chan is also currently the Chairman and member of the Process Review Committee, the Hong Kong Monetary Authority and a member of the Electoral Affairs Commission. Professor Chan has approximately 30 years of experience in the education industry.

Mr. Mak Hing Keung, Thomas, aged 48, 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 55, 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, a company 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 45, is the Chief Operation Officer and is primarily responsible for our overall restaurant operations and management including food production in the restaurants. Mr. Cheng joined the Group in November 1997 as restaurant manager and was promoted to director of human resources department in 2004 and subsequently transferred to the business development department. Mr. Cheng has over 20 years of experience in the Chinese restaurants industry.

Ms. Tsang Wing Ka, aged 36, is the director of finance and accounting department and is primarily responsible for our overall finance, accounting and taxation functions. Ms Tsang joined the Group in December 2002 as finance and accounting manager. Ms. Tsang has over 10 years of experience in financial management. Ms. Tsang holds a Master's degree of Business Administration from the Chinese University of Hong Kong, a Bachelor's degree in Commerce (Accounting) from Curtin University of Technology in Australia and is currently an associate member of the Hong Kong Institute of Certified Public Accountants.

Ms. Li Hiu Ming, aged 42, is the director of human resources department. She joined us in March 2002 as a manager of the human resources department. Ms. Li holds a Master's degree of Science in Strategic Human Resources Management from Hong Kong Baptist University and a Bachelor's degree in Business from Monash University. Ms. Li has over 16 years experience in human resources management in a Hong Kong listed company and other retail and 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 2010.

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 20 to 22 of this annual report.

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

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

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

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

The Chairman and Chief Executive Officer

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should 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 at 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 2010

	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	3/4	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	2/2	N/A	1/1
Mr. Mak Hing Keung, Thomas	4/4	2/2	1/1	N/A
Mr. Ng Yat Cheung	4/4	N/A	N/A	1/1
Average attendance rate	97.9%	100.0%	100.0%	100.0%

Board Committees

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

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

Audit Committee

Composition

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

Role and Function

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

Summary of Work Done

The following is a summary of the work performed by the Audit Committee during the year ended 31 December 2010:

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 2010, the Nomination Committee has reviewed and made recommendation on the re-election of the directors to be proposed for shareholders' approval at the annual general meeting on 26 May 2011.

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 2010, the Remuneration Committee has reviewed the current salaries and benefits (including discretionary bonus and incentive scheme) of all Executive Directors and fees of all Non-executive Directors and Independent Non-executive Directors.

Directors' Responsibility for the Financial Statements

The Directors understands and acknowledges its responsibility for making sure that the financial statements for each financial year are prepared to reflect the true and fair view of the state of affairs, results and cash flow of the Group and in compliance with relevant law and disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2010, 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 their reporting responsibilities of the financial statements of the Group is set forth in the Independent Auditors' Report on page 36 to 37 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 36 to 37 of this annual report.

The remuneration paid to Ernst & Young, and its affiliated firms, for services rendered in respect of the year ended 31 December 2010 is as follows:

	2010 HK$'000	2009 HK$'000
Audit fee		
– provision for the year	2,770	2,700
Non-audit service fees	470	663
Total	3,240	3,363

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 2010.

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. The activities of the principal subsidiaries are set forth on in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and Dividends

The profits of the Group for the year ended 31 December 2010 and state of affairs of the Company and the Group as at that date are set forth in financial statements on pages 38 to 112.

An interim dividend of HK6.20 cents per ordinary share, totaling approximately HK$63,001,000 were paid on 7 October 2010. The directors recommended the payment of a final dividend of HK$6.30 cents per ordinary share, totaling approximately HK$64,017,000 in respect of the year to shareholders on the register of members on 20 May 2011. The proposed final dividend for the year ended 31 December 2010 has been approved at the Company's board meeting on 24 March 2011. 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 2010 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 from Monday, 23 May 2011 to Thursday, 26 May 2011, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 20 May 2011.

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 114 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 113.

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, respectively.

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. 590,000 options were cancelled upon the termination of employment during the year under review.

During the year, no options granted under the Pre-IPO Share Option Scheme have been exercised yet. Share options granted under the Pre-IPO Share Option Scheme are exercisable at HK$1.59 per share and the holders of the said share options may exercise the share options during the period from 29 June 2009 to 28 June 2012, both days inclusive.

Details of the share options outstanding as at 31 December 2010 which have been granted under the Pre-IPO Share Option Scheme are as follows:

		Number of ordinary shares (long position)					
Name	Date of grant	Options outstanding at 1 January 2010	Granted during the year	Options exercised during the year	Options lapsed on expiry	Options cancelled upon termination of employment	Options outstanding at 31 December 2010
Executive Directors							
Mr. Leung Yiu Chun	9 June 2007	560,000	–	–	–	–	560,000
Ms. Wong Fun Ching	9 June 2007	560,000	–	–	–	–	560,000
Other employees	9 June 2007	9,970,000	–	–	–	(590,000)	9,380,000
		11,090,000	–	–	–	(590,000)	10,500,000

(b) Share Option Scheme

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

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set forth in note 34(b) to the financial statements and in the consolidated statement of change in equity, respectively.

Distributable Reserves

At 31 December 2010, 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$812,286,000 of which HK$64,017,000 has been proposed as a final dividend for the year. The amount of HK$744,053,000 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$68,300.

Major Customers and Suppliers

For the year ended 31 December 2010, 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 40.9% and 17.0% of the purchase of the Group, respectively.

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

Directors

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

Executive Directors:

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

Non-executive Directors:

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

Independent Non-executive Directors:

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

Pursuant to article 87(1) of the Company's articles of association, the following Executive Directors namely Messrs Chung Wai Ping and Wong Ka Wing and the following Independent Non-executive Directors, namely Professor Chan Chi Fai, Andrew and Mr. Mak Hing Keung, Thomas will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

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

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set forth on pages 20 to 22.

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 34 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 2010.

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2010, 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	372,597,689	–	384,771,911	37.87
Mr. Wong Ka Wing	(b)	3,722,679	–	103,283,124	–	107,005,803	10.53
Mr. Chung Ming Fat	(c)	–	–	56,795,068	–	56,795,068	5.59
Mr. Leung Yiu Chun	(e)	240,000	–	–	560,000	800,000	0.08
Ms. Wong Fun Ching	(e)	240,000	–	–	560,000	800,000	0.08
Mr. Ho Yuen Wah		2,000,000	–	–	–	2,000,000	0.20
Non-executive Director							
Mr. Fong Siu Kwong		180,000	–	–	–	180,000	0.02
Independent Non-executive Director							
Mr. Ng Yat Cheung		70,937	–	–	–	70,937	0.01

Notes:

(a) 372,597,689 shares were held by Billion Era International Limited, which is wholly-owned by Mr. Chung Wai Ping.

(b) Of these shares, 3,722,679 shares were held by Mr. Wong Ka Wing personally and 103,283,124 shares were held by Joy Mount Investments Limited, which is wholly-owned by Mr. Wong Ka Wing.

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

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

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

Saved as disclosed above, as at 31 December 2010, 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 positions 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 2010, 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)	372,597,689	36.67
Joy Mount Investments Limited	(b)	103,283,124	10.16
Perfect Plan International Limited	(c)	102,053,976	10.04
Value Partners Limited	(d)	88,615,000	8.72
Whole Gain Holdings Limited	(e)	56,795,068	5.59

Notes:

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

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

(c) These shares were wholly-owned by Perfect Plan International Limited, which is an indirect wholly-owned subsidiary of Café de Coral Holdings Limited.

(d) These shares were wholly-owned by Value Partners Limited, which is a wholly-owned subsidiary of Value Partners Group 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 2010, 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

On 26 November 2007, the Company or its designated subsidiaries, as supplier, entered into a master supply agreement with Miracle Time Enterprise Limited ("Miracle Time") and Skybest International Investment Enterprise Limited ("Skybest"), which are non wholly-owned subsidiaries of the Company, as purchasers. The Company will supply or procure to supply the products to Miracle Time and/or Skybest for their daily consumption in the course of their respective businesses for a period of three years from 1 January 2008 to 31December 2010, with the annual cap amounts to HK$32 million, HK$36 million and HK$40 million for the financial years ending 31 December 2008, 2009 and 2010, respectively. The execution of the master supply agreement constitutes a continuing connected transaction of the Company under Rule 14A.14 of the Listing Rules. Details of the transaction were disclosed in an announcement published on 26 November 2007 and a circular of the Company dated 10 December 2007.

During the year, the sales of food and other operating items to Miracle Time and Skybest amounted to approximately HK$18,996,000.

The Independent Non-executive Directors have reviewed and confirmed the above continuing connected transaction have been entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standards on Assurance Engagements 3000 *Assurance Engagements Other Than Auditors or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

Save as disclosed above, the Group leases a warehouse from Ms. Chan Sai Ying, spouse of Mr. Chung Wai Ping. Under the arrangements, the Group is required to pay Ms. Chan Sai Ying a monthly rent of HK$4,000 based on normal commercial term or on terms no less favourable to the Group than terms available for independent third parties. Such transactions are exempt from the reporting, announcement or independent shareholders' approval requirements under Rule 14A.3 of the Listing Rules are included herein for information only.

Sufficiency of Public Float

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

Event after the Reporting Period

Details of the significant event after the reporting period of the Group are set out in note 44 to the financial statements.

Auditors

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

ON BEHALF OF THE BOARD
Chung Wai Ping
Chairman

Hong Kong
24 March 2011

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 38 to 112, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 2010, 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.

Certified Public Accountants
18th Floor,
Two International Finance Centre,
8 Finance Street, Central,
Hong Kong
24 March 2011

Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
REVENUE	5	**2,937,226**	2,610,410
Cost of sales		**(2,491,576)**	(2,208,749)
Gross profit		**445,650**	401,661
Other income and gains, net	5	**18,602**	13,605
Selling and distribution costs		**(67,557)**	(49,565)
Administrative expenses		**(118,871)**	(108,473)
Finance costs	6	**(495)**	(914)
Share of profits and losses of associates, net		**–**	175
PROFIT BEFORE TAX	7	**277,329**	256,489
Income tax expense	10	**(55,590)**	(46,136)
PROFIT FOR THE YEAR		**221,739**	210,353
Attributable to:			
Owners of the parent	11	**219,386**	208,530
Non-controlling interests		**2,353**	1,823
		221,739	210,353
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic (HK cents)	13	**21.59**	20.54
– Diluted (HK cents)	13	**21.49**	20.52

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 2010

	Notes	2010 HK$'000	2009 HK$'000
PROFIT FOR THE YEAR		**221,739**	210,353
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**7,063**	2,830
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**228,802**	213,183
Attributable to:			
Owners of the parent	11	**226,449**	211,360
Non-controlling interests		**2,353**	1,823
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**228,802**	213,183

Consolidated Statement of Financial Position

31 December 2010

	Notes	**31 December 2010 HK$'000**	31 December 2009 HK$'000 (Restated)	1 January 2009 HK$'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	14	**854,017**	650,894	622,786
Prepaid land lease payments	15	**18,855**	18,695	6,927
Investment properties	16	**7,620**	7,190	15,200
Goodwill	17	**22,020**	22,020	16,827
Investments in associates	19	**3,316**	1,254	5,260
Deferred tax assets	20	**63,220**	58,230	45,258
Rental deposits		**75,750**	61,385	51,981
Deposits for purchases of items of property, plant and equipment		**12,362**	7,388	13,582
Pledged deposits	25	**–**	–	15,648
Financial assets at fair value through profit or loss	21	**–**	–	38,215
Other deposit		**4,442**	–	–
Total non-current assets		**1,061,602**	827,056	831,684
CURRENT ASSETS				
Inventories	22	**61,967**	42,178	64,365
Trade receivables	23	**13,528**	14,273	12,072
Prepayments, deposits and other receivables	24	**61,222**	53,948	53,625
Financial assets at fair value through profit or loss	21	**–**	38,885	109,966
Tax recoverable		**11,398**	5,265	2,421
Pledged deposits	25	**31,200**	36,756	5,520
Cash and cash equivalents	25	**382,655**	427,535	279,132
		561,970	618,840	527,101
Asset classified as held for sale	26	**2,884**	–	–
Total current assets		**564,854**	618,840	527,101
CURRENT LIABILITIES				
Trade payables	27	**136,177**	93,785	86,048
Other payables and accruals	28	**215,919**	166,005	167,453
Interest-bearing bank borrowings	29	**11,273**	28,199	47,616
Finance lease payables	30	**200**	94	221
Due to a related company		**–**	–	628
Due to a non-controlling shareholder of subsidiaries	31	**946**	2,321	1,258
Tax payable		**21,384**	25,535	20,381
Total current liabilities		**385,899**	315,939	323,605
NET CURRENT ASSETS		**178,955**	302,901	203,496
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,240,557**	1,129,957	1,035,180

	Notes	**31 December 2010 HK$'000**	31 December 2009 HK$'000 (Restated)	1 January 2009 HK$'000 (Restated)
NON-CURRENT LIABILITIES				
Finance lease payables	30	**197**	23	117
Deferred tax liabilities	20	**9,114**	1,813	2,945
Total non-current liabilities		**9,311**	1,836	3,062
Net assets		**1,231,246**	1,128,121	1,032,118
EQUITY				
Equity attributable to owners of the parent				
Issued capital	32	**101,614**	101,614	101,437
Reserves	34(a)	**1,062,717**	960,819	867,508
Proposed dividends	12	**64,017**	64,017	60,862
		1,228,348	1,126,450	1,029,807
Non-controlling interests		**2,898**	1,671	2,311
Total equity		**1,231,246**	1,128,121	1,032,118

Chung Wai Ping
Director

Leung Yiu Chun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

		Attributable to owners of the parent											
	Notes	Issued capital HK$'000	Share premium HK$'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 2009		101,437	310,452	110,748	21,136	13,844	9	28,470	382,849	60,862	1,029,807	2,311	1,032,118
Profit for the year		–	–	–	–	–	–	–	208,530	–	208,530	1,823	210,353
Other comprehensive income for the year: Exchange differences on translation of foreign operations		–	–	–	–	–	–	2,830	–	–	2,830	–	2,830
Total comprehensive income for the year		–	–	–	–	–	–	2,830	208,530	–	211,360	1,823	213,183
Equity-settled share option arrangements	33	–	–	–	–	6,332	–	–	–	–	6,332	–	6,332
Issue of shares	32(a)	177	6,074	–	–	(3,437)	–	–	–	–	2,814	–	2,814
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	–	777	777
Dividend paid to a non-controlling shareholder of subsidiaries		–	–	–	–	–	–	–	–	–	–	(3,240)	(3,240)
Final 2008 dividend declared		–	–	–	–	–	–	–	–	(60,862)	(60,862)	–	(60,862)
Interim 2009 dividend	12	–	–	–	–	–	–	–	(47,251)	–	(47,251)	–	(47,251)
Special 2009 dividend	12	–	–	–	–	–	–	–	(15,750)	–	(15,750)	–	(15,750)
Proposed final 2009 dividend	12	–	–	–	–	–	–	–	(64,017)	64,017	–	–	–
At 31 December 2009		101,614	316,526	110,748	21,136	16,739	9	31,300	464,361	64,017	1,126,450	1,671	1,128,121

	Notes	Issued capital HK$'000	Share premium HK$'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
		Attributable to owners of the parent											
At 1 January 2010		101,614	316,526	110,748	21,136	16,739	9	31,300	464,361	64,017	1,126,450	1,671	1,128,121
Profit for the year		–	–	–	–	–	–	–	219,386	–	219,386	2,353	221,739
Other comprehensive income for the year: Exchange differences on translation of foreign operations		–	–	–	–	–	–	7,063	–	–	7,063	–	7,063
Total comprehensive income for the year		–	–	–	–	–	–	7,063	219,386	–	226,449	2,353	228,802
Equity-settled share option arrangements	33	–	–	–	–	2,467	–	–	–	–	2,467	–	2,467
Dividend paid to a non-controlling shareholder of subsidiaries		–	–	–	–	–	–	–	–	–	–	(1,126)	(1,126)
Final 2009 dividend declared		–	–	–	–	–	–	–	–	(64,017)	(64,017)	–	(64,017)
Interim 2010 dividend	12	–	–	–	–	–	–	–	(63,001)	–	(63,001)	–	(63,001)
Proposed final 2010 dividend	12	–	–	–	–	–	–	–	(64,017)	64,017	–	–	–
At 31 December 2010		101,614	316,526*	110,748*	21,136*	19,206*	9*	38,363*	556,729*	64,017	1,228,348	2,898	1,231,246

* These reserve accounts comprise the consolidated reserves of HK$1,062,717,000 (2009: HK$960,819,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**277,329**	256,489
Adjustments for:			
Dividend income from unlisted investments	5	**–**	(1,101)
Share of profits and losses of associates, net		**–**	(175)
Fair value gains on investment properties	5	**(7,884)**	(690)
Interest income	5	**(2,556)**	(2,615)
Loss/(gain) on disposal of items of property, plant and equipment, net	5,7	**525**	(393)
Gain on disposal of investment properties	5	**–**	(1,000)
Finance costs	6	**495**	914
Fair value gains on financial assets at fair value through profit or loss, net	5	**–**	(645)
Write-off of items of property, plant and equipment	7	**914**	1,096
Depreciation of property, plant and equipment	7	**175,671**	162,521
Recognition of prepaid land lease payments	7	**348**	311
Equity-settled share option expense	7	**2,467**	6,332
		447,309	421,044
Increase in rental deposits		**(14,177)**	(9,281)
Decrease/(increase) in pledged deposits		**5,556**	(15,588)
Decrease/(increase) in inventories		**(19,437)**	22,921
Decrease/(increase) in trade receivables		**800**	(1,434)
Decrease/(increase) in prepayments, deposits and other receivables		**(6,925)**	3,628
Increase in trade payables		**41,142**	6,007
Increase/(decrease) in other payables and accruals		**48,072**	(6,164)
Decrease in an amount due to a related company		**–**	(628)
Cash generated from operations		**502,340**	420,505
Interest paid		**(430)**	(829)
Hong Kong profits tax paid		**(51,292)**	(45,957)
Overseas taxes paid		**(11,812)**	(11,903)
Net cash flows from operating activities		**438,806**	361,816

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(267,612)**	(170,899)
Deposits paid for purchases of items of property, plant and equipment		**(12,362)**	(7,388)
Additions to investment properties		**(91,546)**	–
Additions to prepaid land lease payment		**–**	(12,232)
Acquisition of subsidiaries	35	**–**	(4,828)
Acquisition of an associate		**–**	(4)
Loan to an associate		**(2,062)**	–
Proceeds from redemption of financial assets at fair value through profit or loss		**38,885**	109,941
Proceeds from disposal of investment properties		**–**	9,700
Proceeds from disposal of items of property, plant and equipment		**277**	839
Interest received		**2,556**	2,615
Dividends received from unlisted investments		**–**	1,101
Increase in non-pledged deposits with original maturity over three months when acquired		**(50,000)**	–
Increase in other deposit		**(4,442)**	–
Net cash flows used in investing activities		**(386,306)**	(71,155)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	32(a)	**–**	2,814
Repayment of bank loans		**(16,926)**	(19,417)
Capital element of finance lease payments		**280**	(221)
Interest element of finance lease payments		**(13)**	(22)
Dividends paid		**(127,018)**	(123,863)
Dividends paid to a non-controlling shareholder of subsidiaries		**(1,126)**	(3,240)
Increase/(decrease) in an amount due to a non-controlling shareholder of subsidiaries		**(1,375)**	1,063
Interest expense on a loan from a non-controlling shareholder of subsidiaries		**(52)**	(63)
Net cash flows used in financing activities		**(146,230)**	(142,949)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(93,730)**	147,712
Cash and cash equivalents at beginning of year		**427,535**	279,132
Effect of foreign exchange rate changes, net		**(1,150)**	691
CASH AND CASH EQUIVALENTS AT END OF YEAR		**332,655**	427,535
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**312,655**	333,638
Non-pledged time deposits with original maturity of less than six months when acquired		**70,000**	93,897
Cash and cash equivalents as stated in the consolidated statement of financial position		**382,655**	427,535
Non-pledged time deposits with original maturity of over three months when acquired		**(50,000)**	–
		332,655	427,535

Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	**448,073**	446,048
CURRENT ASSETS			
Prepayments	24	**1,177**	406
Due from a subsidiary	18	**482,453**	469,449
Cash and cash equivalents	25	**2,141**	15,034
Total current assets		**485,771**	484,889
CURRENT LIABILITIES			
Other payables and accruals	28	**738**	566
NET CURRENT ASSETS		**485,033**	484,323
Net assets		**933,106**	930,371
EQUITY			
Issued capital	32	**101,614**	101,614
Reserves	34(b)	**767,475**	764,740
Proposed final dividend	12	**64,017**	64,017
Total equity		**933,106**	930,371

Chung Wai Ping
Director

Leung Yiu Chun
Director

1. Corporate Information

Tao Heung Holdings Limited was incorporated in the Cayman Islands on 29 December 2005 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is 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. 13, Au Pui Wan Street, Fo Tan, Shatin, 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

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 certain financial assets at fair value through profit or loss, which have been measured at fair value. The asset held for sale is stated at the lower of its carrying amount and fair value less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars.

Basis of consolidation

Basis of consolidation from 1 January 2010

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 2010. 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.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

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.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

(a) Acquisition of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

(b) Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interests had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interests and the parent shareholders.

(c) Upon loss on control, the Group accounted for the investment retained at its proportionate share of net assets value at the date control was lost. The carrying value of such investment at 1 January 2010 has not been restated.

2.2 Changes in Accounting Policy and Disclosures

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

2.2 Changes in Accounting Policy and Disclosures (continued)

Other than as further explained below, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

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

(a) *Improvements to HKFRSs 2009*

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

HKAS *17 Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this Interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

The Group has reassessed its leases in Hong Kong and Mainland China, previously classified as operating leases, upon the adoption of the amendments. The classification of leases in Mainland China remained as operating leases. As substantially all the risks and rewards associated with the leases in Hong Kong have been transferred to the Group, the leases in Hong Kong have been reclassified from operating leases under "prepaid land lease payments" to finance leases under "property, plant and equipment". The corresponding amortisation has also been reclassified to deprecation. The effects of the above changes are summarised below:

	Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
Consolidated income statement		
Decrease in recognition of prepaid land lease payments	**(1,110)**	(956)
Increase in depreciation on property, plant and equipment	**1,110**	956
	–	–

2.2 Changes in Accounting Policy and Disclosures (continued)

(a) *Improvements to HKFRSs 2009* (continued)

	31 December 2010 HK$'000	31 December 2009 HK$'000	1 January 2009 HK$'000
Consolidated statement of financial position			
Decrease in prepaid land lease payments, net	**(66,845)**	(70,275)	(61,058)
Decrease in prepaid land lease payments, net (included in prepayments, deposits and other receivables)	**(1,110)**	(1,110)	(893)
Increase in property, plant and equipment, net	**67,955**	71,385	(61,951)
	–	–	–

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

Due to the retrospective application of the amendments which has resulted in the restatement of items in the statement of financial position, a statement of financial position as at 1 January 2009, has been presented in these financial statements as required by HKAS 1 *Presentation of Financial Statements* ("HKAS 1").

(b) HK Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

The interpretation requires a term loan that contains a clause that gives the lender the unconditional right to call the loan at any time shall be classified in total by the borrower as current in the statement of financial position. This is irrespective of whether a default event has occurred and notwithstanding any other terms and maturity stated in the loan agreement. Prior to the adoption of this interpretation, the Group's term loans were classified in the statement of financial position as non-current liabilities based on their maturity dates of repayment. Upon the adoption of the interpretation, the term loans have been reclassified entirely as current liabilities. The interpretation has been applied by the Group retrospectively and comparative amounts have been restated. In addition, as a result of this change and as required by HKAS 1, these financial statements also include a statement of financial position as at 1 January 2009.

Further details of the loans are disclosed in note 29 to the financial statements.

2.2 Changes in Accounting Policy and Disclosures (continued)

(b) HK Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* (continued)

The above change has had no effect on the consolidated income statement. The effect on the consolidated statement of financial position is summarised as follows:

	31 December 2010 HK$'000	31 December 2009 HK$'000	1 January 2009 HK$'000
CURRENT LIABILITIES			
Increase in interest-bearing bank borrowings	**1,869**	11,273	28,025
NON-CURRENT LIABILITIES			
Decrease in interest-bearing bank borrowings	**(1,869)**	(11,273)	(28,025)

There was no impact on the net assets 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 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[2]
HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [5]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards (continued)

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Joint ventures

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

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

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

2.4 Summary of Significant Accounting Policies (continued)

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 from 1 January 2010

Business combinations are accounted for using 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 acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled 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 net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

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, goodwill and an asset held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

Related parties

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

(a) the party, directly or indirectly, through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation

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

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	5% – $33^1/_3$%
Furniture, fixtures and equipment	20% – $33^1/_3$%
Motor vehicles	20% – 25%

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

Investment properties

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

2.4 Summary of Significant Accounting Policies (continued)

Investment properties (continued)

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

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

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

Non-current assets held for sale

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

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

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, including the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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

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

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss and loans and receivables, as appropriate. 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, in the case of investments not at fair value through profit or loss, directly attributable 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

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for “Revenue recognition” below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management’s intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Loans and receivables

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has 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.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

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

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. 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, plus directly attributable transaction costs.

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities (continued)

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 method amortisation process.

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; option pricing models or other valuation models.

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:

- where 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, where 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, carryforward of unused tax credits and unused tax losses, 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:

- where 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.

Revenue recognition

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

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

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

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

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets;

2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition (continued)

(e) dividend income, when the shareholders' right to receive payment has been established; and

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

Share-based payment transactions

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

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

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

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

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

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

2.4 Summary of Significant Accounting Policies (continued)

Other employee benefits

Retirement benefit schemes

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

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

Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 grants the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using their respective functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies (continued)

The functional currencies of the Company's overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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

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

3. Significant Accounting Judgements and Estimates

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

Judgements

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

Operating lease commitments – Group as lessor

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

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 discussed 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 based on a valuation on these properties conducted by an independent firm of professionally qualified valuers using property valuation techniques which involve making assumptions on certain market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and the corresponding adjustments to the gain or loss recognised in the income statement.

Impairment allowances on loans and receivables

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

Deferred tax assets

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

4. Operating Segment Information

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

Geographical information

The following tables present revenue from external customers for the years ended 31 December 2010 and 2009, and certain non-current asset information as at 31 December 2010 and 2009, by geographic area.

(a) ***Revenue from external customers***

	2010 HK$'000	2009 HK$'000
Hong Kong	**2,393,463**	2,159,393
Mainland China	**543,763**	451,017
	2,937,226	2,610,410

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

(b) ***Non-current assets***

	2010 HK$'000	2009 HK$'000 (Restated)
Hong Kong	**499,986**	336,689
Mainland China	**422,646**	370,752
	922,632	707,441

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

5. Revenue, Other Income and Gains, Net

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

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

	Group	
	2010	2009
	HK$'000	HK$'000
Revenue		
Restaurant and bakery operations	**2,847,734**	2,557,917
Sale of food	**89,492**	52,493
	2,937,226	2,610,410
Other income and gains, net		
Bank interest income	**2,556**	2,615
Dividend income from unlisted investments	**–**	1,101
Fair value gains on financial assets at fair value through profit or loss, net	**–**	645
Fair value gains on investment properties	**7,884**	690
Gain on disposal of investment properties	**–**	1,000
Gross rental income from investment properties	**1,172**	411
Sponsorship income	**5,025**	4,933
Gain on disposal of items of property, plant and equipment, net	**–**	393
Others	**1,965**	1,817
	18,602	13,605

6. Finance Costs

	Group	
	2010	2009
	HK$'000	HK$'000
Interest on bank loans wholly repayable		
– Within five years	**414**	812
– Beyond five years	**16**	17
Interest on finance leases	**13**	22
Interest on an amount due to a non-controlling shareholder of subsidiaries	**52**	63
Total interest expense on financial liabilities not at fair value through profit or loss	**495**	914

7. Profit Before Tax

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

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
Cost of inventories sold		**954,548**	835,704
Depreciation*	14	**175,671**	162,521
Recognition of prepaid land lease payments*	15	**348**	311
Gross rental income from investment properties		**(1,172)**	(411)
Less: Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**211**	13
Net rental income		**(961)**	(398)
Employee benefit expenses* (including directors' remuneration (note 8)):			
Salaries and bonuses		**769,808**	672,905
Retirement benefit scheme contributions (defined contribution schemes)		**37,633**	35,738
Equity-settled share option expense	33	**2,467**	6,332
		809,908	714,975
Lease payments under operating leases in respect of land and buildings*:			
Minimum lease payments		**207,241**	186,167
Contingent rents		**10,210**	9,997
		217,451	196,164
Auditors' remuneration		**3,211**	3,108
Foreign exchange differences, net		**(1,970)**	466
Write-off of items of property, plant and equipment		**914**	1,096
Loss/(gain) on disposal of property, plant and equipment, net		**525**	(393)

* The cost of sales for the year amounted to HK$2,491,576,000 (2009: HK$2,208,749,000) included depreciation charges of HK$168,391,000 (2009: HK$153,609,000 (restated)), recognition of prepaid land lease payments of HK$348,000 (2009: HK$311,000 (restated)), employee benefit expenses of HK$744,498,000 (2009: HK$656,815,000) and operating lease rentals of HK$214,866,000 (2009: HK$193,488,000).

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	
	2010	2009
	HK$'000	HK$'000
Fees	**900**	864
Other emoluments:		
Salaries	**3,258**	3,169
Discretionary bonuses	**522**	254
Equity-settled share option benefits	**442**	820
Retirement benefit scheme contributions (defined contribution schemes)	**68**	66
	5,190	5,173

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 has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

8. Directors' Remuneration (continued)

2010	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	–	138	20	–	8	166
Mr. Chung Ming Fat	–	453	74	–	12	539
Mr. Wong Ka Wing	–	544	90	–	12	646
Mr. Leung Yiu Chun	–	960	158	221	12	1,351
Ms. Wong Fun Ching	–	540	89	221	12	862
Mr. Ho Yuen Wah	–	623	91	–	12	726
	–	3,258	522	442	68	4,290
Non-executive directors:						
Mr. Fong Siu Kwong	150	–	–	–	–	150
Mr. Chan Yue Kwong, Michael	150	–	–	–	–	150
	300	–	–	–	–	300
Independent non-executive directors:						
Mr. Li Tze Leung	150	–	–	–	–	150
Professor Chan Chi Fai, Andrew	150	–	–	–	–	150
Mr. Mak Hing Keung, Thomas	150	–	–	–	–	150
Mr. Ng Yat Cheung	150	–	–	–	–	150
	600	–	–	–	–	600
	900	3,258	522	442	68	5,190

8. Directors' Remuneration (continued)

2009	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	–	120	10	–	6	136
Mr. Chung Ming Fat	–	453	38	–	12	503
Mr. Wong Ka Wing	–	544	45	–	12	601
Mr. Leung Yiu Chun	–	960	73	410	12	1,455
Ms. Wong Fun Ching	–	540	44	410	12	1,006
Mr. Ho Yuen Wah	–	552	44	–	12	608
	–	3,169	254	820	66	4,309
Non-executive directors:						
Mr. Fong Siu Kwong	144	–	–	–	–	144
Mr. Chan Yue Kwong, Michael	144	–	–	–	–	144
	288	–	–	–	–	288
Independent non-executive directors:						
Mr. Li Tze Leung	144	–	–	–	–	144
Professor Chan Chi Fai, Andrew	144	–	–	–	–	144
Mr. Mak Hing Keung, Thomas	144	–	–	–	–	144
Mr. Ng Yat Cheung	144	–	–	–	–	144
	576	–	–	–	–	576
	864	3,169	254	820	66	5,173

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

9. Five Highest Paid Employees

The five highest paid employees, during the year included two (2009: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2009: two) non-director, highest paid employees for the year are as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Salaries	**1,836**	1,126
Discretionary bonuses	**200**	84
Equity-settled share option benefits	**194**	359
Retirement benefit scheme contributions (defined contribution schemes)	**36**	24
	2,266	1,593

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

	Number of employees	
	2010	2009
Nil to HK$1,000,000	**3**	2

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 has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

10. Income Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 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	
	2010	2009
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**36,258**	44,672
Overprovision in prior years	**(19)**	(187)
Current – Mainland China	**16,474**	15,627
Deferred (note 20)	**2,877**	(13,976)
Total tax charge for the year	**55,590**	46,136

10. Income Tax (continued)

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			
	2010		2009	
	HK$'000	**%**	HK$'000	%
Profit before tax	**277,329**		256,489	
Tax at the Hong Kong statutory tax rate	**45,759**	**16.5**	42,321	16.5
Difference in tax rates applied for specific provinces in Mainland China	**5,583**		1,485	
Adjustments in respect of current tax of previous years	**(19)**		(187)	
Profits and losses attributable to associates	**–**		12	
Income not subject to tax	**(1,747)**		(695)	
Expenses not deductible for tax	**4,740**		1,716	
Tax losses not recognised	**1,248**		1,389	
Others	**26**		95	
Tax charge at the Group's effective rate	**55,590**	**20.0**	46,136	18.0

11. Profit Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a loss of approximately HK$7,304,000 (2009: HK$7,531,000) which has been dealt with in the financial statements of the Company.

12. Dividends

	Group	
	2010	2009
	HK$'000	HK$'000
Interim – HK6.20 cents (2009: HK4.65 cents) per ordinary share	**63,001**	47,251
Special – Nil (2009: HK1.55 cents) per ordinary share	**–**	15,750
Proposed final – HK6.30 cents (2009: HK6.30 cents) per ordinary share	**64,017**	64,017
	127,018	127,018

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,016,141,000 (2009: 1,015,033,541) 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 shares under the Pre-IPO Share Option Scheme.

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

	2010	2009
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**219,386**	208,530

	Number of shares	
	2010	2009
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,016,141,000**	1,015,033,541
Effect of dilution – weighted average number of ordinary shares:		
Share options	**4,525,364**	1,072,295
	1,020,666,364	1,016,105,836

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 2010						
Cost:						
At 1 January 2010	314,131	565,726	324,368	12,363	–	1,216,588
Additions	1,286	114,705	66,680	2,224	91,044	275,939
Transfer from investment properties (note 16)	–	–	–	–	99,000	99,000
Disposals	–	(3,073)	(1,255)	(220)	–	(4,548)
Write-off	–	(12,500)	(8,225)	–	–	(20,725)
Reclassified to asset held for sale (note 26)	(3,483)	–	–	–	–	(3,483)
Exchange realignment	3,061	5,980	3,769	85	–	12,895
At 31 December 2010	314,995	670,838	385,337	14,452	190,044	1,575,666
Accumulated depreciation:						
At 1 January 2010	92,863	296,182	168,109	8,540	–	565,694
Provided during the year	5,645	108,093	60,035	1,898	–	175,671
Disposals	–	(2,583)	(1,101)	(62)	–	(3,746)
Write-off	–	(12,131)	(7,680)	–	–	(19,811)
Reclassified to asset held for sale (note 26)	(599)	–	–	–	–	(599)
Exchange realignment	348	2,524	1,527	41	–	4,440
At 31 December 2010	98,257	392,085	220,890	10,417	–	721,649
Net book value:						
At 31 December 2010	216,738	278,753	164,447	4,035	190,044	854,017

14. Property, Plant and Equipment (continued)
Group (continued)

	Leasehold land and buildings HK$'000 (Restated)	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
31 December 2009						
Cost:						
At 1 January 2009	273,426	504,006	293,575	12,933	–	1,083,940
Acquisition of subsidiaries (note 35)	–	2,910	1,427	203	–	4,540
Additions	40,219	95,088	49,991	734	–	186,032
Disposals	–	(3)	–	(1,521)	–	(1,524)
Write-off	–	(37,608)	(21,406)	–	–	(59,014)
Exchange realignment	486	1,333	781	14	–	2,614
At 31 December 2009	314,131	565,726	324,368	12,363	–	1,216,588
Accumulated depreciation:						
At 1 January 2009	85,535	233,146	134,967	7,506	–	461,154
Provided during the year	7,286	99,975	53,156	2,104	–	162,521
Disposals	–	(2)	–	(1,076)	–	(1,078)
Write-off	–	(37,364)	(20,554)	–	–	(57,918)
Exchange realignment	42	427	540	6	–	1,015
At 31 December 2009	92,863	296,182	168,109	8,540	–	565,694
Net book value:						
At 31 December 2009	221,268	269,544	156,259	3,823	–	650,894

The Group's lands included in property, plant and equipment with the net carrying amount of HK$67,955,000 (2009: HK$71,385,000) are situated in Hong Kong under the following lease terms:

	2010 HK$'000	2009 HK$'000
Long term leases	**26,492**	28,846
Medium term leases	**41,463**	42,539
	67,955	71,385

At 31 December 2010, the net carrying amounts of the Group's property, plant and equipment held under finance leases included in the total amounts of leasehold lands and furniture, fixtures and equipment amounted to HK$67,955,000 (2009: HK$71,385,000) and HK$525,000 (2009: HK$201,000), respectively.

As at 31 December 2010, all of the leasehold land and buildings with a net carrying amount of HK$78,664,000 (2009: HK$96,843,000) situated in Hong Kong were pledged to secure the banking facilities granted to the Group (note 29).

15. Prepaid Land Lease Payments

	Group	
	2010	2009
	HK$'000	HK$'000
		(Restated)
Carrying amount at 1 January (restated)	**19,038**	7,081
Additions	**–**	12,232
Recognised during the year (restated)	**(348)**	(311)
Exchange realignment	**518**	36
Carrying amount at 31 December (restated)	**19,208**	19,038
Current portion included in prepayments, deposits and other receivables (note 24)	**(353)**	(343)
Non-current portion	**18,855**	18,695

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

16. Investment Properties

	Group	
	2010	2009
	HK$'000	HK$'000
Carrying amount at 1 January	**7,190**	15,200
Additions	**91,546**	–
Disposals	**–**	(8,700)
Net profit from a fair value adjustment	**7,884**	690
Transfer to construction in progress (note 14)	**(99,000)**	–
Carrying amount at 31 December	**7,620**	7,190

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

	2010	2009
	HK$'000	HK$'000
Long term leases	**6,000**	5,940
Medium term leases	**1,620**	1,250
	7,620	7,190

The Group's investment properties were revalued on 31 December 2010 by DTZ Debenham Tie Leung Limited, independent professionally qualified valuer, at HK$7,620,000 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 38(a) to the financial statements.

At 31 December 2010, the Group's investment properties with a total carrying amount of HK$6,520,000 (2009: HK$6,090,000) were pledged to secure banking facilities granted to the Group (note 29).

17. Goodwill

	Group	
	2010	2009
	HK$'000	HK$'000
Cost at 1 January	**22,020**	16,827
Reclassified from interests in associates	**–**	1,407
Acquisition of subsidiaries (note 35)	**–**	3,786
Cost and net carrying amount at 31 December	**22,020**	22,020

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

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

	Group	
	2010	2009
	HK$'000	HK$'000
Restaurant operations	**16,766**	16,766
Bakery operations	**5,193**	5,193
Property investment	**61**	61
	22,020	22,020

The recoverable amounts of the Cash-generating Units have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 5% (2009: 5%), and cash flows beyond the five-year period are extrapolated using an average growth rate of 2% (2009: 2%).

Key assumptions were used in the value in use calculation of the Cash-generating Units for the years ended 31 December 2010 and 2009. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

18. Investments in Subsidiaries

	Company	
	2010	2009
	HK$'000	HK$'000
Unlisted shares, at cost	**428,382**	428,382
Capital contribution in respect of employee share-based compensation	**19,691**	17,666
	448,073	446,048

The amount due from a subsidiary included in the Company's current assets of approximately HK$482,453,000 (2009: HK$469,449,000) 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		Principal activities
			2010	2009	
Directly held:					
Sky Cheer Group Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	**100%**	100%	Investment holding
Indirectly held:					
Best Harvest Food Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Production, sale and distribution of products related to restaurant operations
Elite Sky International Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Great Sky International Enterprise Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Castle Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Fine International Industrial Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
Sky Great Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services

18. Investments in Subsidiaries (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2010	2009	Principal activities
Sky Hero Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Leader Industrial Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Triumph International Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Well International Investment Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Skyford Enterprises Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Skyland Investment Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Property investment
Skymart Limited	Hong Kong	Ordinary HK$10,000	**100%**	100%	Investment holding
Skywell Enterprise Limited	Hong Kong	Ordinary HK$500,000	**100%**	100%	Restaurant operations and provision of food catering services
Starway International Development	Hong Kong `	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services Limited
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

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 2010	2009	Principal activities
Top Eagle Development Limited	Hong Kong	Ordinary HK$40,000	**100%**	100%	Property investment
Triumph Sky Holdings Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Earth Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Skyera International Holdings Limited	Hong Kong	Ordinary HK$10,000	**100%**	100%	Property investment
Tao Heung Management Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Property investment
Tao Heung Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Provision of human resources support
東莞萬好食品有限公司* @	People's Republic of China ("PRC")/ Mainland China	HK$214,000,000	**100%**	100%	Production, sale and distribution of food products
深圳領鮮稻香飲食有限公司* @	PRC/Mainland China	HK$32,000,000	**100%**	100%	Restaurant operations and provision of food catering services
Basic Tech Limited	Hong Kong	Ordinary HK$28,000	**100%**	100%	Property investment
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

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 2010	2009	Principal activities
Nature Lion Limited	Hong Kong	Ordinary HK$250,000	**100%**	100%	Investment holding, property investment and sale and distribution of food products and operating items related to restaurant operations
Poly Sky Investment Limited	Hong Kong	Ordinary HK$48,000	**100%**	100%	Restaurant operations and provision of food catering services
Skyking Restaurant Limited	Hong Kong	Ordinary HK$71,000	**100%**	100%	Investment holding
Tin Shing Company Limited	Hong Kong	Ordinary HK$67,500	**100%**	100%	Restaurant operations and provision of food catering services
Miracle Time Enterprise Limited	Hong Kong	Ordinary HK$1,000,000	**80%**	80%	Restaurant operations and provision of food catering services
Skybest International Investment Enterprise Limited	Hong Kong	Ordinary HK$10,000	**80%**	80%	Restaurant operations and provision of food catering services
Glory Rainbow International Trading Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
Loyal Sky Holdings Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
Sky Rich (China) Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
Skymark Asia Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
深圳友誼稻香海鮮火鍋酒家**@	PRC/ Mainland China	HK$7,000,000	**100%**	100%	Restaurant operations and provision of food catering services

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 2010	2009	Principal activities
迎海漁港飲食(深圳)有限公司*@	PRC/ Mainland China	HK$3,000,000	**100%**	100%	Restaurant operations and provision of food catering services
廣州市新港稻香海鮮火鍋酒家有限公司*@	PRC/ Mainland China	HK$8,250,000	**100%**	100%	Restaurant operations and provision of food catering services
廣州市僑光稻香海鮮火鍋酒家有限公司*@	PRC/ Mainland China	HK$8,250,000	**100%**	100%	Restaurant operations and provision of food catering services
Hongyet Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
Sky Trend Holdings Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
東莞地王稻香飲食有限公司*@	PRC/ Mainland China	HK$30,264,000	**100%**	100%	Restaurant operations and provision of food catering services
東莞天景稻香有限公司*@	PRC/ Mainland China	HK$18,000,000	**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	British Virgins Islands	Ordinary USD10,000	**80%**	80%	Investment holding
Tai Cheong Bakery Company Limited	Hong Kong	Ordinary HK$300,000	**80%**	80%	Production and retail of bakery products
Tai Cheong (TM) Co., Limited	Hong Kong	Ordinary HK$10,000	**80%**	80%	Provision of promotion services

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 2010	2009	Principal activities
Tai Cheong (Kwun Tong) Bakery Co., Ltd	Hong Kong	Ordinary HK$10,000	**80%**	80%	Production and retail of bakery products
Tai Cheong (Macau) Bakery Limited@	Macau	Ordinary MOP25,000	**80%**	80%	Production and retail of bakery products
廣州天暉稻香飲食有限公司*@	PRC/ Mainland China	HK$18,000,000	**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.

** This company is a Sino-foreign co-operative joint venture established in the PRC.

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

19. Investments in Associates

	Group 2010 HK$'000	2009 HK$'000
Share of net assets	**1,284**	1,284
Goodwill on acquisition	**122**	122
	1,406	1,406
Loan to an associate	**2,062**	–
Provision for impairment	**(152)**	(152)
	3,316	1,254

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

19. Investments in Associates (continued)

Particulars of the associates are as follows:

Company name	Particulars of issued shares held	Percentage of incorporation	Percentage of ownership interest attributable to the Group		Principal activities
			2010	2009	
Tin Park Limited	Ordinary shares of HK$1 each	Hong Kong	**39%**	39%	Dormant
World Wider International Limited	Ordinary shares of HK$1 each	Hong Kong	**39%**	39%	Dormant
Baker Limited@	Ordinary shares of HK$1 each	Hong Kong	**40%**	40%	Investment holding

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

On 30 March 2009, the Group acquired an additional 60% equity interest in Tai Cheong Holdings Group Limited, a former 20% owned associate, and it became an 80% owned subsidiary of the Group thereafter. Further details of which are set out in note 35 to the financial statements.

The above associates were indirectly held by the Company.

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

	2010	2009
	HK$'000	HK$'000
Assets	**8,794**	3,717
Liabilities	**(5,572)**	(499)
Losses	**(111)**	(157)

20. 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 2009	28,286	17,152	45,438
Deferred tax credited to the income statement during the year (note 10)	3,101	9,811	12,912
Exchange differences	44	84	128
Gross deferred tax assets at 31 December 2009 and 1 January 2010	31,431	27,047	58,478
Deferred tax credited to the income statement during the year (note 10)	2,197	2,466	4,663
Exchange differences	162	404	566
Gross deferred tax assets at 31 December 2010	33,790	29,917	63,707

Deferred tax liabilities

	Revaluation of investment properties HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Total HK$'000
At 1 January 2009	251	2,874	3,125
Deferred tax credited to the income statement during the year (note 10)	(242)	(822)	(1,064)
Gross deferred tax liabilities at 31 December 2009 and 1 January 2010	9	2,052	2,061
Deferred tax charged to the income statement during the year (note 10)	61	7,479	7,540
Gross deferred tax liabilities at 31 December 2010	70	9,531	9,601

20. 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:

	2010 HK$'000	2009 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**63,220**	58,230
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(9,114)**	(1,813)
	54,106	56,417

The Group has estimated tax losses arising in Hong Kong of approximately HK$52,576,000 (2009: HK$45,012,000) that are available indefinitely for offsetting against future taxable profits of those companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$11,323,000 (2009: HK$6,231,000) at 31 December 2010.

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

21. Financial Assets at Fair Value Through Profit or Loss

	Group	
	2010 **HK$'000**	2009 HK$'000
Unlisted investments at fair value	**–**	38,885

The above unlisted investments were designated as financial assets at fair value through profit or loss.

The fair values of the unlisted investments were based on the quoted value available by the issuers at the end of the reporting period.

At 31 December 2009, the principal of the above unlisted investments, representing cost of investments, amounting to approximately HK$39 million, was guaranteed by the issuers of the respective investments which were released during the year.

22. Inventories

	Group	
	2010	2009
	HK$'000	HK$'000
Food and beverages, and other operating items for restaurant and bakery operations	**61,967**	42,178

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. 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	
	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	**9,345**	12,000
Less than 1 month past due	**2,545**	2,069
1 to 3 months past due	**780**	129
Over 3 months past due	**858**	75
	13,528	14,273

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. The Group does not hold any collateral or other credit enhancements over these balances.

24. Prepayments, Deposits and Other Receivables

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000
Prepayments	**28,599**	23,424	**1,177**	406
Prepaid land lease payments (note 15)	**353**	343	**–**	–
Deposits and other receivables	**32,270**	30,181	**–**	–
	61,222	53,948	**1,177**	406

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	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**312,655**	333,638	**2,141**	15,034
Time deposits	**101,200**	130,653	**–**	–
	413,855	464,291	**2,141**	15,034
Less:				
Pledged deposits with original maturity over 3 months but within 1 year for short term bank borrowings	**(31,200)**	(36,756)	**–**	–
	382,655	427,535	**2,141**	15,034

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$197,080,000 (2009: HK$119,132,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

26. Asset Classified as held for Sale

On 9 November 2010, the Group entered into a provisional agreement with an independent third party to dispose of certain of its leasehold land and building situated in Hong Kong for a consideration of HK$11,000,000. The transaction is expected to be completed on or before 30 March 2011 and is estimated to result in a gain on disposal, before related expenses of approximately HK$8,116,000. The carrying amount of this leasehold land and building classified as held for sale was HK$2,884,000.

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	
	2010	2009
	HK$'000	HK$'000
Within 1 month	**126,352**	85,017
1 to 2 months	**3,739**	4,207
2 to 3 months	**1,240**	1,302
Over 3 months	**4,846**	3,259
	136,177	93,785

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

28. Other Payables and Accruals

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**64,585**	44,126	**6**	5
Accruals	**151,334**	121,879	**732**	561
	215,919	166,005	**738**	566

Other payables are non-interest-bearing.

29. Interest-Bearing Bank Borrowings

Group	2010 Effective interest rate (%)	2010 Maturity	2010 HK$'000	2009 Effective interest rate (%)	2009 Maturity	2009 HK$'000 (Restated)
Current:						
Portion of bank loans due for repayment within one year or on demand – secured	**3.82**	**2011**	**9,404**	2.94	2010	16,926
Portion of bank loans due for repayment after one year which contains repayment on demand clause (note (a)) – secured	**3.82**	**2012-2020**	**1,869**	2.94	2011-2020	11,273
			11,273			28,199

Notes:

(a) As further explained in notes 2.2(b) and 43 to the financial statements, due to adoption of HK Interpretation 5 in the current year, term loans of the Group with carrying amounts of HK$11,273,000 (2009: HK$28,199,000) containing a repayment on demand clause have been classified in total as current liabilities. Accordingly, portion of the bank loans due for repayment after one year with carrying amounts of HK$1,869,000 (2009: HK$11,273,000) have been reclassified as current liabilities. Ignoring the effect of any repayment on demand clause and based on the maturity terms of the loans, the loans are repayable:

	Group 2010 HK$'000	Group 2009 HK$'000
Within one year	**9,404**	16,926
In the second year	**1,383**	9,404
In the third to fifth years, inclusive	**188**	1,507
Beyond five years	**298**	362
	11,273	28,199

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

(i) mortgages over the Group's leasehold land and buildings situated in Hong Kong;

(ii) mortgages over certain of the Group's investment properties; and

(iii) the pledge of certain of the Group's time deposits.

30. Finance Lease Payables

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

At 31 December 2010, 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	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**203**	107	**200**	94
In the second year	**171**	26	**171**	23
In the third to fifth years, inclusive	**26**	–	**26**	–
Total minimum finance lease payments	**400**	133	**397**	117
Future finance charges	**(3)**	(16)		
Total net finance lease payables	**397**	117		
Portion classified as current liabilities	**(200)**	(94)		
Non-current portion	**197**	23		

The above finance leases are denominated in Hong Kong dollars and bear interest at rates ranging from 4.6% to 5.4% (2009: 4.6% to 5.4%) per annum.

31. Due to a Non-Controlling Shareholder of Subsidiaries

The amounts due to a non-controlling shareholder of subsidiaries are unsecured and have no fixed terms of repayment. Except for a loan of HK$1,198,000 as at 31 December 2009 from a non-controlling shareholder of a subsidiary, which bore interest at the Hong Kong dollar prime rate quoted by The Hongkong and Shanghai Banking Corporation Limited and was fully settled during the year, the remaining balance is interest-free.

Mr. Chan Yue Kwong, Michael, a non-executive director of the Company, is also a director of the holding company of the non-controlling shareholder of subsidiaries.

32. Share Capital

	Company	
	2010	2009
	HK$'000	HK$'000
Authorised:		
23,400,000,000 (2009: 23,400,000,000) ordinary shares of HK$0.10 each	**2,340,000**	2,340,000
Issued and fully paid:		
1,016,141,000 (2009: 1,016,141,000) ordinary shares of HK$0.10 each	**101,614**	101,614

A summary of the transactions during the year ended 31 December 2009 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 2009	1,014,371,000	101,437	310,452	411,889
Share options exercised (note a)	1,770,000	177	6,074	6,251
At 31 December 2009, 1 January and 31 December 2010	1,016,141,000	101,614	316,526	418,140

Note:

(a) During the year ended 31 December 2009, the subscription rights attaching to 1,770,000 share options were exercised at a subscription price of HK$1.59 per share (note 33), resulting in the issue of 1,770,000 ordinary shares of HK$0.1 each for a total cash consideration of approximately HK$2,814,000 and additional share capital of HK$177,000 and share premium of HK$2,637,000 (before share issue expenses). In addition, the attributable share option reserve of HK$3,437,000 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 the 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 share options under the Share Option Scheme is determinable by the board of directors, but may not be less than the higher 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:

	2010		2009	
	Weighted average exercise price per share HK$	**Number of options '000**	Weighted average exercise price per share HK$	Number of options '000
At 1 January	**1.59**	**11,090**	1.59	13,110
Exercised during the year	**–**	**–**	1.59	(1,770)
Cancelled upon termination of employment during the year	**1.59**	**(590)**	1.59	(250)
At 31 December	**1.59**	**10,500**	1.59	11,090

33. Share Option Schemes (continued)

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2009 was HK$2.30 per share.

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

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

The Group recognised a share option expense of approximately HK$2,467,000 (2009: HK$6,332,000) during the year. The fair value of the share options granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2007 was HK$29,310,000 (HK$1.93 each).

At 31 December 2010, the Company had 10,500,000 (2009: 11,090,000) share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 1.03% 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 10,500,000 (2009: 11,090,000) additional ordinary shares of the Company and additional share capital of HK$1,050,000 (2009: HK$1,109,000) and share premium of HK$15,645,000 (2009: 16,524,000) (before share issue expenses).

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

34. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 42 to 43 of the financial statements.

Capital reserve

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

Other reserve

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

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 2009		310,452	13,844	9	427,527	488	752,320
Profit and total comprehensive income for the year		–	–	–	–	130,469	130,469
Issue of shares	32(a)	6,074	(3,437)	–	–	–	2,637
Equity-settled share option arrangements	33	–	6,332	–	–	–	6,332
Interim 2009 dividend	12	–	–	–	–	(47,251)	(47,251)
Special 2009 dividend	12	–	–	–	–	(15,750)	(15,750)
Proposed final 2009 dividend	12	–	–	–	–	(64,017)	(64,017)
At 31 December 2009 and 1 January 2010		316,526	16,739	9	427,527	3,939	764,740
Profit and total comprehensive Income for the year		–	–	–	–	127,286	127,286
Equity-settled share option arrangements	33	–	2,467	–	–	–	2,467
Interim 2010 dividend	12	–	–	–	–	(63,001)	(63,001)
Proposed final 2010 dividend	12	–	–	–	–	(64,017)	(64,017)
At 31 December 2010		316,526	19,206	9	427,527	4,207	767,475

Note:

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

35. Business Combinations

On 30 March 2009, the Group acquired an additional 60% equity interest in Tai Cheong Holdings Group Limited ("Tai Cheong") and its subsidiaries ("Tai Cheong Group") for an aggregate consideration of HK$12,120,000, which included a cash consideration of HK$6,120,000 and the assumption of a shareholder loan of HK$6,000,000 (the "Acquisition"). Tai Cheong became an 80% owned subsidiary of the Group thereafter.

The fair values of the identifiable assets and liabilities of the Tai Cheong Group as at the date of the Acquisition which were equivalent to the corresponding carrying amounts immediately before the Acquisition are as follows:

	HK$'000
Property, plant and equipment (note 14)	4,540
Inventories	472
Trade receivables	730
Prepayments, deposits and other receivables	3,540
Cash and bank balances	7,292
Trade payables	(1,640)
Other payables and accruals	(2,992)
Due to a related company	(2,000)
Tax payable	(54)
Non-controlling interests	(777)
Net assets acquired at fair values	9,111
Interest in an associate	(777)
Goodwill on acquisition (note 17)	3,786
Total cost of the Acquisition	12,120

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

	HK$'000
Cash consideration	(12,120)
Cash and bank balances acquired	7,292
Net outflow of cash and cash equivalents in respect of the Acquisition	(4,828)

Since the Acquisition, Tai Cheong contributed HK$34,017,000 to the Group's revenue and HK$354,000 to the consolidated profit for the year ended 31 December 2009.

Had the combination taken place at the beginning of the year ended 31 December 2009, the revenue of the Group and the profit of the Group for the year ended 31 December 2009 would have been HK$2,621,387,000 and HK$211,074,000, respectively.

36. 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$939,000 (2009: HK$1,551,000) for such obligation.

37. Contingent Liabilities

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

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank guarantees given in lieu of utility and property rental deposits	**28,101**	27,978	**–**	–
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**236,100**	236,100

As at 31 December 2010, 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$10,670,000 (2009:HK$28,199,000).

38. 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.

At 31 December 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2010	2009
	HK$'000	HK$'000
Within one year	**6**	6

38. Operating Lease Arrangements (continued)

(b) As lessee

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

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2010	2009
	HK$'000	HK$'000
Within one year	**205,702**	195,219
In the second to fifth years, inclusive	**325,728**	300,364
Beyond five years	**121,183**	71,505
	652,613	567,088

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

39. Commitments

In addition to the operating lease commitments detailed in note 38(b) above, the Group had the following capital commitments at the end of the reporting period:

	2010	2009
	HK$'000	HK$'000
Contracted, but not provided for:		
Property, plant and equipment	**7,975**	80,634
Acquisition of subsidiaries	**39,980**	–

40. Related Party Transactions

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

	Notes	2010 HK$'000	2009 HK$'000
Sales of food and other operating items to an associate	(i)	–	1,976
Rental expense to a related party	(ii)	48	48

Notes:

(i) The sales of food and other operating items were charged based on terms and conditions negotiated on an individual transaction basis.

(ii) 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 (2009: HK$4,000).

The related party transaction in respect of item (ii) above constitutes continuing connected transactions as defined in Chapter 14A of the Listing Rules.

In addition, on 26 November 2007, the Company, Miracle Time Enterprise Limited ("Miracle Time") and Skybest International Investment Enterprise Limited ("Skybest"), entered into a master supply agreement (the "Master Supply Agreement") to provide food and other operating items to Miracle Time and Skybest for the period from 1 January 2008 to 31 December 2010. The purchase price is charged based on cost plus a mark-up of no more than 30%. Miracle Time and Skybest are 80% owned subsidiaries of the Company and their respective remaining 20% issued share capital is beneficially owned by Café de Coral Holdings Limited, a substantial shareholder of the Company. Accordingly, the transactions effected under the Master Supply Agreement also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. Further details of which were set out in the Company's circular dated 10 December 2007. During the year, the sales of food and other operating items to Miracle Time and Skybest amounted to approximately HK$18,996,000 (2009: HK$18,600,000).

41. 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

2010

Financial assets

	Financial assets at fair value through profit or loss – designated as such upon initial recognition HK$'000	Loans and receivables HK$'000	Total HK$'000
Loan to an associate (note 19)	–	2,062	2,062
Rental deposits	–	75,750	75,750
Trade receivables	–	13,528	13,528
Financial assets included in prepayments, deposits and other receivables (note 24)	–	32,270	32,270
Pledged deposits	–	31,200	31,200
Cash and cash equivalents	–	382,655	382,655
	–	537,465	537,465

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	136,177
Financial liabilities included in other payables and accruals	204,099
Interest-bearing bank borrowings	11,273
Finance lease payables	397
Due to a non-controlling shareholder of subsidiaries	946
	352,892

41. Financial Instruments by Category (continued)

Group

2009

Financial assets

	Financial assets at fair value through profit or loss – designated as such upon initial recognition HK$'000	Loans and receivables HK$'000	Total HK$'000
Rental deposits	–	61,385	61,385
Financial assets at fair value through profit or loss	38,885	–	38,885
Trade receivables	–	14,273	14,273
Financial assets included in prepayments, deposits and other receivables (note 24)	–	30,181	30,181
Pledged deposits	–	36,756	36,756
Cash and cash equivalents	–	427,535	427,535
	38,885	570,130	609,015

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	93,785
Financial liabilities included in other payables and accruals	153,057
Interest-bearing bank borrowings	28,199
Finance lease payables	117
Due to a non-controlling shareholder of subsidiaries	2,321
	277,479

41. Financial Instruments by Category (continued)

Company

Financial assets

	2010 Loans and receivables HK$'000	2009 Loans and receivables HK$'000
Due from a subsidiary	482,453	469,449
Cash and cash equivalents	2,141	15,034
	484,594	484,483

Financial liabilities

	2010 Financial liabilities at amortised cost HK$'000	2009 Financial liabilities at amortised cost HK$'000
Other payables and accruals	738	566

42. Fair Value and Fair Value Hierarchy

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

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

Trade receivables, financial assets included in prepayments, deposits and other receivables, an amount due from a subsidiary, current portion of pledged deposits, 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 a non-controlling shareholder of subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

42. Fair Value and Fair Value Hierarchy (continued)

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

The fair value of the unlisted investments at fair value through profit or loss is based on quoted value available by the issuers.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value as at 31 December:

Level 2	**2010** **HK$'000**	2009 HK$'000
Financial assets at fair value through profit or loss	**–**	38,885

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2009: Nil).

The Group did not have any financial liabilities measured at fair value as at the end of the reporting period (2009: Nil).

The Company did not have financial instruments measured at fair value as at the end of the reporting period (2009: Nil).

43. 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 the 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 2010 and 2009 would have decreased/increased the Group's profit before tax by HK$56,000 and HK$141,000, respectively.

Credit risk

The Group's major exposure to credit risk arising from the default of the 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, financial assets at fair value through profit or loss and deposits and other receivables, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

43. Financial Risk Management Objectives and Policies (continued)

Foreign currency risk

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

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

Liquidity risk

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

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

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

43. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

Group

	2009 (restated)			
	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	–	93,785	–	93,785
Other payables and accruals	–	153,057	–	153,057
Interest-bearing bank borrowings (note)	28,665	–	–	28,665
Finance lease payables	–	107	26	133
Due to a non-controlling shareholder of subsidiaries	2,321	–	–	2,321
	30,986	246,949	26	277,961

Company

	Less than 1 year	
	2010 HK$'000	2009 HK$'000
Other payables and accruals	**738**	566

43. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

As at 31 December 2010, the banking facilities granted to the subsidiaries subject to the guarantees given to the banks by the Company were utilised to the extent of approximately HK$10,670,000 (2009: HK$28,199,000).

Note:

Included in the above interest-bearing bank borrowings are term loans with carrying amounts of HK$11,273,000 (2009: HK$28,199,000). 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:

	Group			
	Less than 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
As at 31 December 2010	9,561	1,623	314	11,498
As at 31 December 2009	17,393	11,111	387	28,891

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and business strategy. 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 2010 and 31 December 2009.

43. Financial Risk Management Objectives and Policies (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is total borrowings to total equity attributable to owners of the parent. Total borrowings include interest-bearing bank borrowings and finance lease payables. Total shareholders' equity comprises all components of equity attributable to owners of the Company. 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

	2010 **HK$'000**	2009 HK$'000
Total borrowings	**11,670**	28,316
Total equity attributable to owners of the parent	**1,228,348**	1,126,450
Gearing ratio	**0.9%**	2.5%

44. Event After the Reporting Period

On 30 December 2010, the Group entered into three sets of definitive sales and purchase agreements (the "Agreements") with independent third parties to acquire 70% equity interests in each of Guangzhou Baixing Pasturage and Feed Co. Ltd. ("Baixing"), Guangzhou Rongli Poultry Co., Ltd. ("Rongli") and Guangzhou Yisheng Poultry Co., Ltd. ("Yisheng"), for a total cash consideration of RMB38,000,000. Baixing, Rongli and Yisheng were engaged in chicken and pig farming operation and provision of chicken slaughtering services. The completion of the transactions is subject to certain conditions as set out in the Agreements.

Because these acquisitions were effected shortly before the date of approval of these financial statements, it is not practicable to disclose further details about the acquisition.

45. Comparative Amounts

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment, and a third statement of financial position as at 1 January 2009 has been presented.

46. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 24 March 2011.

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

The consolidated results of the Group for the year ended 31 December 2006 and of the assets, liabilities and non-controlling interests as at 31 December 2006 as extracted from the Company's prospectus dated 15 June 2007 and restated/reclassified as appropriate. The consolidated results of the Group for the years ended 31 December 2010, 2009, 2008 and 2007 and the consolidated assets, liabilities and non-controlling interests of the Group as at 31 December 2010, 2009, 2008 and 2007 as extracted from the respective published audited financial statements.

	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**2,937,226**	2,610,410	2,444,316	2,085,134	1,573,608
Cost of sales	**(2,491,576)**	(2,208,749)	(2,076,033)	(1,789,746)	(1,325,045)
Gross profit	**445,650**	401,661	368,283	295,388	248,563
Other income and gains, net	**18,602**	13,605	12,142	62,140	9,956
Selling and distribution costs	**(67,557)**	(49,565)	(43,413)	(22,387)	(15,810)
Administrative expenses	**(118,871)**	(108,473)	(105,627)	(85,519)	(60,476)
Finance costs	**(495)**	(914)	(2,406)	(4,747)	(5,458)
Share of profits and losses of associates, net	**–**	175	189	50	(2)
PROFIT BEFORE TAX	**277,329**	256,489	229,168	244,925	176,773
Income tax expense	**(55,590)**	(46,136)	(37,308)	(42,350)	(31,034)
PROFIT FOR THE YEAR	**221,739**	210,353	191,860	202,575	145,739
Attributable to:					
Owners of the parent	**219,386**	208,530	189,129	200,306	138,839
Non-controlling interests	**2,353**	1,823	2,731	2,269	6,900
	221,739	210,353	191,860	202,575	145,739

Assets, Liabilities and Non-Controlling Interests

	As at 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**1,626,456**	1,445,896	1,358,785	1,271,529	698,979
TOTAL LIABILITIES	**(395,210)**	(317,775)	(326,667)	(339,902)	(334,309)
NON-CONTROLLING INTERESTS	**(2,898)**	(1,671)	(2,311)	(2,099)	(770)
	1,228,348	1,126,450	1,029,807	929,528	363,900

Tao Square 稻坊

Cheers Palace
迎囍皇宮

Chao Inn

迎囍大酒樓
CHEERS RESTAURANT

Tao Square 稻坊

稻香超級漁港

領鮮
TCT