



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

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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

Corporate Information *(continued)*

Principal Bankers

Bank of China (Hong Kong) Limited
Bank of East Asia, Limited
CITIC Ka Wah Bank
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 *(continued)*

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 as 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 (2008: 1,014,371,000 shares).
7. Net cash per share is calculated based on the number of 1,016,141,000 shares (2008: 1,014,371,000 shares).

Calendar

| | |
|--|----------------------------|
| Announcement of interim results | 10 September 2009 |
| Announcement of annual results | 30 March 2010 |
| Despatch of annual report to shareholders | 23 April 2010 |
| Closure of register of members for the proposed final dividend | 20 May 2010 to 25 May 2010 |
| Annual general meeting | 26 May 2010 |
| Dividends: | |
| Interim: HK4.65 cents per share paid | 16 October 2009 |
| Special: HK1.55 cents per share paid | 16 October 2009 |
| Final: HK6.30 cents per share payable on | 28 May 2010 |

The setting up of a new logistics centre in Tai Po, which is expected to be completed by 2011, together with current logistics centres accommodate our expansion over the next ten years.



Chairman's Statement

To our shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Tao Heung Holdings Limited (the "**Company**" and 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 2009.

Despite a year fraught with challenges, Tao Heung continued to achieve steady growth. The financial downturn which commenced in late 2008 persisted throughout the first half of 2009 and combined with the H1N1 outbreak at the start of the year resulted in a severe erosion of consumer confidence, leading to reduced spending in the catering industry. However, as value for money became the main focus among mass market restaurant goers, our ability to cater for such demand allowed us to capture opportunities. Using various promotions and marketing strategies, the Group maintained steady customer traffic, resulting in an increase in revenue of 6.8% to around HK\$2,610 million. While our marketing efforts helped consolidate Tao Heung's leading position in the hearts and minds of





consumers, ongoing expansion of our restaurant network across Hong Kong and Mainland China reinforced the Group's physical presence in the territory. By upholding our motto of "Delicious and Good Value" through "Quality Food, Quality Service and Quality Environment", we believe Tao Heung will maintain steady progress in the future.

For the year under review, we continued to realise stable growth even though the operating conditions in Hong Kong and Mainland China remained volatile. Utilising our Dongguan Logistics Centre to deliver more food products to our restaurants in both Hong Kong and Mainland China, and by generating synergies between it and the Fotan counterpart, we were able to raise the efficiency of our restaurants on both sides of the border. In addition, successful cost control measures were employed to enhance the efficiency of our back offices and branches which improved our profitability as evident in our slightly enhanced gross margin and a remarkable increase in EBITDA by 16.0% to approximately HK\$420 million. Profit attributable to owners of the parent reached approximately HK\$209 million, representing a growth of 10.3% as compared to last year.

Along with the increase in profitability, the Group's net cash position remained healthy, allowing us to undertake future expansion and investment objectives. In appreciation for the continuous support of our equity holders, I recommend that the Board approves the payment of a final dividend of HK6.3 cents per share. Together with an interim dividend of HK4.65 cents per share and special dividend of HK1.55 cents per share paid during the year, total dividend per share will amount to HK12.5 cents for the financial year, representing a payout ratio of 60.9%.

Chairman's Statement *(continued)*

Further expansion and marketing strategies sustained growth in Hong Kong

We continued to realise growth in Hong Kong despite the economic slump and the fact that four restaurants were closed temporarily due to renovation of shopping malls. In 2009, the Hong Kong operation recorded revenue of approximately HK\$2,159 million, up 5.5% from a year earlier.

The rise in income can partly be attributed to the effective marketing promotions and strategies launched during the year which proved successful in maintaining customer traffic during times when spending sentiment was poor. Our signature "One Dollar Chicken" campaign generated the most attention in the market and was a topic of conversation. In addition, a series of marketing programmes featuring different brands of the Group including "火鍋一代宗師" for our flagship brands of Tao Heung and Tao Heung Pier 88, "客家真味" for Hak Ka Hut, and "團聚就是力量" for Chao Inn were conducted during the year. These programmes further enhanced awareness of these brands and strengthened our competitive edges. Most importantly, these activities will enable the Group to capitalise on the gradual economic recovery in 2010. We remained optimistic about the local market and were able to capture the opportunities presented to us during the difficult times to open nine new restaurants during the year.

Dedicated to diversifying the Group's business, we acquired an additional 60% equity interest in Tai Cheong Holdings Group Limited ("Tai Cheong") in March 2009 and became the single largest shareholder of Tai Cheong. This acquisition will enable us to further develop a new line of business, bakery business through shop expansion, and more importantly, realise the full potential of synergies generated between Tai Cheong and Tao Heung's restaurant network in the future. Moreover, the Group's festive food and packaged goods will enjoy an expanded distribution channel that is expected to bring in a higher degree of business diversification for Tao Heung as a whole.

Greater efficiency and expanded presence reaped rewards in China market

Steady progress was made by our Mainland China business during the year, also aided by the Dongguan Logistics Centre which achieved higher utilisation rate which, in turn raised the overall efficiency of our restaurants' operations. More promising was the success in achieving operational breakeven (breakeven before depreciation) for our Dongguan Logistics Centre in its second full year of operation and the management is confident that we can honour our promise to achieve total breakeven in 2010.

Following the outbreak of the global financial crisis in late 2008, Tao Heung's Mainland China operation faced highly unfavourable operating conditions — the result of more cautious consumer sentiment. Among all locations that the Group operated in, Dongguan was most severely hit by the crisis, having experienced numerous factory closures. Consequently, the management sought to slow down the Group's expansion plan, and only one restaurant was opened in 2009. However, the five outlets that were opened in 2008 still contributed revenue on a full-year basis and such contributions helped increase total revenue from the Mainland China business by 13.7% to approximately HK\$451 million.

With government measures aimed at promoting domestic demand and increasing welfare benefits subsequently implemented, the Mainland China economy was among the quickest to recover, as evidenced by GDP growth of 8.7% in 2009. Consumption associated with the hotel and catering sectors for the year amounted to RMB1,799.8 billion, representing a year-on-year increase of 16.8%. Despite steady growth within the catering sector in 2009, the management remained cautious about the market recovery as the economy was still affected by the financial crisis. However, considering the essential nature of the catering consumption, the catering segment is expected to possess high growth potential in the long run and the Group will speed up its expansion plan within Mainland China in 2010 so as to capitalise on opportunities associated with the economic upturn.

Chairman's Statement (continued)

Our effort in developing our presence and brand awareness in Mainland China was well recognized by the recent awards we have received, highlighted by: "Top 500 Quality Brands in China 2009 (2009年度中國品質500強) — Commercial Services Industry (Top 50 brands)" organised by *Consumption Daily* (消費日報), *Phoenix Weekly · Lifestyle under Phoenix Satellite Television* (鳳凰衛視 · 鳳凰週刊 · 生活) and *China Quality Brands Website* (www.china12365.com). In addition, Tao Heung was awarded the first "Top 500 Overseas Chinese Merchants in China's Market (Mainland)" organized by *Ta Kung Pao* and *Global Chinese Entrepreneur* (《海外文摘》寰球華商雜誌), demonstrating the Group's outstanding business performance in Mainland China. Such awards not only remind us of our customers' expectations, but also strengthen our confidence to further expand our presence in the Mainland China market.

Outlook

The upcoming year will continue to present stiff challenges to the Group as we anticipate inflationary pressures brought on by the reviving stock and property markets. Costs associated with rent, food and labour may increase, thus causing potential impact on the food catering industry. Nevertheless, we will seek to bolster the efficiency of our Dongguan Logistics Centre in the coming years to strengthen our competitive edges, specifically leveraging economies of scale and direct purchases from the source of origin as well as supreme quality and food safety control. These advantages will enable us to better shape our businesses for overcoming market adversity and for embracing the opportunities ahead.

Despite this seemingly uncertain operating environment, we remain cautiously optimistic about Tao Heung's growth potential in the coming year. We will continue our course of expansion in Hong Kong, scheduling to add as many as eight outlets in 2010. In Mainland China, three-to-four restaurants are likely to be added in view of the steady economic recovery. As part of this expansion, a premium brand for banquets will be introduced in Shenzhen and will target the wedding banquet market which holds significant potential in the territory. By keeping the current pace of expansion, we are optimistic about our chain reaching 100 restaurants during our first "Five-Year Plan" after our IPO. The management is formulating a second "Five-Year Plan" to open another 50 restaurant outlets by the end of 2016. To better prepare for the opportunities and challenges ahead, we will continue to solidify our foundation.

As our logistics centres play a paramount role in supporting our long term expansion plan and in view of the full capacity of the existing Fotan Logistics centre, we will invest approximately HK\$250 million in setting up a new facility in Tai Po Industrial Estate in Hong Kong. Expected to be completed by 2011, its large capacity, a five-fold increase over the Fotan Logistics Centre, will enable the Group to accommodate the expansion of our restaurant, bakery and peripheral businesses over the next ten years.

Appreciation

On behalf of the Board, I would like to extend my gratitude to the management and staff for their dedication and unwavering effort over the past year. I also wish to express my appreciation to our customers and business partners for their continuing support. We will look to build on the Group's successes and generate greater returns for our shareholders.

Chung Wai Ping

Chairman

Hong Kong
30 March 2010

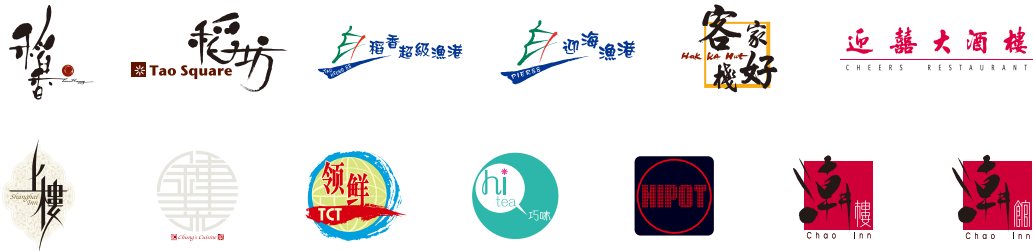


Management Discussion and Analysis

The Board is pleased to announce the Group's annual results for the year ended 31 December 2009. Despite volatile economic conditions encountered during the year under review, Tao Heung was able to maintain steady business growth and enhanced profitability. This has been attributable to the Group's ability to generate synergies between its logistics centres in Hong Kong and Dongguan, stringent cost control measures supported by all staff members as well as the successful use of marketing campaigns to maintain customer traffic.

Financial Results

Despite the challenging economic conditions, the Group was able to realise modest gains from its various business interests during the year under review. For the year under review, the Group recorded a total revenue of HK\$2,610 million, representing a year-on-year increase of 6.8%. Such growth was attributed to the opening of 10 new shops — nine in Hong Kong and one in Mainland China during the year, offsetting by the temporary closure of four restaurants in Hong Kong resulting from shopping malls renovations. Among these restaurants, two have already resumed operations in February this



year and the other two will be reopened in the second quarter, which will accelerate our growth momentum for 2010. Further means of raising revenue was the significant use of promotions to attract customers, which is also consistent with the Group's core business philosophy of delivering "Delicious and Good Value for Money" food.

Gross profit margin rose moderately while profit before tax increased by 11.9% to approximately HK\$256 million (2008: HK\$229 million). Profit attributable to owners of the parent rose by 10.3% to approximately HK\$209 million, representing a net profit margin of 8.0%, with a 0.3 percentage points increase compared to last year. Enhanced profitability was mainly due to increasing bulk purchase directly from local sources which helped to reduce production cost, as well as to increase food supply from the Group's logistics centres, thereby raising efficiency.



Hong Kong Operations

The Group's Hong Kong business achieved revenue growth of 5.5% to approximately HK\$2,159 million, despite the temporary closure of four restaurants as mentioned. Nine new outlets were opened in strategic locations across Hong Kong during the year even in the face of the economic downturn. Among the openings included one HIPOT branch unveiled in Jordan in late 2009 and one more was added in Causeway Bay in early 2010. Together with the first store opened in Kwun Tong in 2008, the brand's coverage in the territory was reinforced. The HIPOT brand has been well received by young customers, and the new brand aims to capture an even greater share of this consumer segment. Through a more casual dining concept and relatively simple operation model, management is confident to develop this brand into a sizable speciality restaurant chain in few years' time. Complementing the Group's expansion effort was the use of signature and innovative promotional campaigns that proved successful in maintaining customer traffic even as consumption sentiment was particularly poor in early 2009. Such campaigns included Tao Heung's signature "One Dollar Chicken" as well as the launch of various promotions for complimentary dishes.



Apart from restaurant business, the Group was able to vastly expand its bakery business, Tai Cheong, with three new outlets established in Hong Kong during the year. As at 31 December 2009, the Group operated 11 stores in Hong Kong and Macau. Moreover, the image of Tai Cheong was revamped, adopting a more modern and fashionable style to attract younger customers. The products range was also expanded and new packaging was introduced to tap the tourist market. By capitalising on the Group's logistic centres for the supply of more raw materials and products, Tai Cheong's network will expand further, with approximately five to six outlets target to be opened in 2010, providing greater revenue and profit contributions to the Group.



For the year under review, net profit margin of the Hong Kong business increased slightly to 8.4%, up from 8.0% in 2008, while profit attributable to owners of the parent increased 10.4% to approximately HK\$181 million (2008: HK\$164 million). Improved profitability was due partly to more food supplied to the Group's Hong Kong restaurants from the two logistics centres, accounting for approximately half of the total food components purchased. The increase in food supply by both logistics centre enabled the Group to realise greater cost efficiencies, and reduced the labour pressure for the traditional Chinese fine dining business as less skilled chefs are required to operate the restaurants. Further aiding profitability was the successful employment of effective cost control measures through the dedication and unwavering effort of all our staff force to enhance the efficiency of both back offices and branches.

Management Discussions and Analysis (continued)

Mainland China Operations

Mainland China business generated revenue of approximately HK\$451 million, up 13.7% year on year, accounting for 17.3% of the Group's total turnover. The operation of a total of 13 restaurants during the year, coupled with full-year operation of five outlets that were opened in 2008 attributed to the satisfactory increase in turnover. Only one new restaurant was added in 2009 as the Group strategically sought to slow down its expansion on account of the volatile operating environment in the territory resulting from the financial turmoil.

Profit attributable to owners of the parent increased 8.0% to approximately HK\$27 million (2008: HK\$25 million) and can be attributed to increased revenue from restaurants as well as enhanced efficiency from higher utilisation rate achieved at the Dongguan Logistics Centre. In the year to come, the Group will resume its expansion effort in Southern China as the management expects the Mainland China market will recover at a faster pace than Hong Kong.

Logistics Centres

The logistics centres in Fotan and Dongguan continued to deliver effective cost savings for the Group as measures aimed at raising efficiency achieved quantifiable results. Increased bulk purchasing of food ingredients from their sources resulted in reduced costs, higher efficiency and greater quality assurance. In addition, the Dongguan Logistics Centre continued to supply more food products to all of our restaurants. Among the benefits of both activities was the enhancement of overall margin.

The Dongguan Logistics Centre achieved operational breakeven point (breakeven before depreciation) in 2009, reaching average output of approximately 600 tonnes per month. The target output at Dongguan is 800 tonnes per month by the end of 2010 at which time the Group will be able to achieve a wholly breakeven point for the logistics centre.

In Hong Kong, the Fotan Logistics Centre is now fully utilised. To satisfy the increasing food processing demand of the Hong Kong restaurant network and to further strengthen our foundation for meeting the challenges ahead in the second "Five-Year Plan" of the Group, Tao Heung has purchased a plant in Tai Po Industrial Estate which will be converted into a 200,000 square feet logistics centre with five times the production capacity of its current Fotan counterpart. The total investment is estimated around HK\$250 million and will be funded internally taking into account of our strong financial position and for



Management Discussions and Analysis (continued)

generating better returns on our cash resources. Once the Tai Po facility commences operation in 2011, the management expects it to work seamlessly with the Dongguan Logistics Centre, establishing a wider platform for the Group's future business expansion.

Peripheral Business

For the year under review, the peripheral business achieved stable growth with revenue up 20.9% to approximately HK\$52 million (2008: HK\$43 million), although it still accounted for a relatively modest amount of the Group's total turnover.

The chilled food trading business, which included products such as meal boxes, sweet soup (Chinese dessert), Chinese buns and dim sums, were supplied to a greater number of supermarkets and food caterers in line with the Group's expanded customer portfolio. For the first time, Tao Heung branded pre-packaged chilled food ("稻香誠製") was sold at some of our Hong Kong and Mainland China branches and Products Expo, achieving satisfactory results.

Financial Resources and Liquidity

The Group maintained a strong financial and liquidity position during the year under review. As at 31 December 2009, the Group's total assets increased to approximately HK\$1,446 million (2008: approximately HK\$1,359 million), while the total equity increased to approximately HK\$1,128 million (2008: approximately HK\$1,032 million).

As at 31 December 2009, the Group had cash and cash equivalents of approximately HK\$428 million. After deducting total interest-bearing bank borrowings of approximately HK\$28 million, the Group had a net cash surplus position of approximately HK\$400 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 2009, the Group's gearing ratio (defined as total interest-bearing bank borrowings plus finance lease payable divided by total shareholders' equity) was reduced to 2.5% (2008: 4.7%).

Capital Expenditure

Capital expenditure for the year ended 31 December 2009 amounted to approximately HK\$176 million and capital commitments as at 31 December 2009 amounted to approximately HK\$81 million. The capital expenditure were mainly used for the renovation of the Group's new and existing restaurants, while the capital commitments relate to the acquisition of the lease of factory buildings in Tai Po Industrial Estate.

Management Discussions and Analysis *(continued)*

Material Acquisition

On 10 December 2009, a wholly-owned subsidiary of the Company entered into a provisional sale and purchase agreement with a third party to acquire a lease of all those Subsection 5 of Section M of Tai Po Town Lot No. 1 and Section A of Tai Po Town Lot No. 13 & Extensions Thereto and the Remaining Portion of Further Extensions to Tai Po Town Lot No. 13 & the Extension Area Thereto, together with the Buildings thereon, No. 18-20 Dai Fat Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong for an aggregate consideration of approximately HK\$88 million which included a cash consideration of approximately HK\$74 million payable to the independent third party and the administrative fees of approximately HK\$14 million payable to Hong Kong Science and Technology Parks Corporation. The acquisition was completed on 25 March 2010. Please refer to the announcement of the Company dated 10 December 2009 for detailed information on the acquisition.

Contingent Liabilities

As at 31 December 2009, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK\$28 million (2008: approximately HK\$34 million).

Foreign Exchange Risk Management

The Group's sales and purchases for the year ended 31 December 2009 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 2009, the Group had 6,950 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 2009, approximately 11,090,000 options were outstanding under the Pre-IPO Share Option Scheme and 1,770,000 share options have been exercised during the year. Also, as at 31 December 2009, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

Management Discussions and Analysis *(continued)*

Pledge of Assets

As at 31 December 2009, the Group pledged its bank deposits of approximately HK\$37 million, leasehold land and buildings of approximately HK\$97 million and investment properties of approximately HK\$6 million to secure the banking facilities granted to the Group.

Prospects

While the management remains confident about the industry's growth potential and consumer sentiment in 2010, there are still many challenges on the horizon. Thriving stock and property markets will raise concerns about inflation, thus possibly eroding consumer confidence, which in turn will drive down spending. Rent, wages, food costs may rise, impacting profitability of most business segments. Even if such a scenario does not materialise, the aforementioned rise in expenses would still pose stiff challenges for the food catering industry. As such, the Group remains cautiously optimistic towards the overall business environment in the year to come.

Moving forward, the Group will continue a steady pace of expansion in 2010. In Hong Kong, the management intends to open up to eight outlets across the territory, while in Mainland China, three to four restaurants will be added, representing a relatively swift pace as the country is expected to recover from the economic downturn more quickly than Hong Kong. Already, two premises have been confirmed in southern China, and the Group plans to introduce a premium brand for banquet to specifically target the burgeoning wedding banquet market in the Mainland China. With a new logistics centre set to commence operation in Tai Po in 2011, the Group will possess even greater food processing capability, allowing the management to consider expanding into Western and other international cuisine as well. The Group will have a solid platform for bolstering its restaurant business and exploring more peripheral opportunities.

Food safety and hygiene is a vitally important factor contributing to our long term growth and success through ensuring customer satisfaction. The Group's commitment to offering our customers the most wholesome food is found in our logistics centres in Hong Kong and Dongguan. Both facilities are well equipped with food testing laboratories for meeting the highest standards of food processing hygiene at each dining outlet. The high priority of food safety of Tao Heung will be continued in its soon-to-be-opened Tai Po logistics centre. In addition, the Group also recognises the crucial importance of purchasing from clean and reliable raw food producers. Tao Heung is always actively exploring the potential acquisition of quality food vendors to provide a stable supply of quality ingredients for the Group and delivering cost savings while extending its business into other complementary market segments.

Having amassed with significant experience in weathering difficult market conditions, the management will continue to take the necessary measures for ensuring the Group's long term sustainable growth. Stringent cost control measures, streamlining of operations, and generating business through effective promotions and diversification will be among the steps taken. Furthermore by providing quality food, services and dining experiences to customers, the Group will move closer to its objective of becoming the most popular and highly respected Chinese restaurant group in Hong Kong and Mainland China, in turn delivering satisfactory returns to shareholders.

Directors and Senior Management

Executive Directors

Mr. Chung Wai Ping, aged 50, 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 52, 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 55, 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 39, 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 47, 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 48, 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.

Directors and Senior Management *(continued)*

Non-executive Directors

Mr. Fong Siu Kwong, aged 52, 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 MACHS Alumni Association.

Mr. Chan Yue Kwong, Michael, aged 58, 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, an independent non-executive director of Starlite Holdings Limited, Kingboard Laminates Holdings Limited and Pacific Textiles Holdings Limited, all three companies are listed on the Main Board of the Stock Exchange, Mr. Chan holds a double major degree in Sociology and Political Science, a Master degree in City Planning and an Honorary Doctorate degree in Business Administration.

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

Professor Chan Chi Fai, Andrew, JP, aged 56, 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 Hong Kong Deposit Protection Board and a member of the Electoral Affairs Commission. Professor Chan has approximately 29 years of experience in the education industry.

Directors and Senior Management *(continued)*

Mr. Mak Hing Keung, Thomas, aged 47, 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 Redgate Media Group. Prior to joining the 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 54, 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 44, 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 35, 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 41, is the director of human resources department. She joined us in March 2002 as a manager of the human resources department. Ms. Li holds a master's degree of science in strategic human resources management from Hong Kong Baptist University and a bachelor's degree in business from Monash University. Ms. Li has over 16 years experience in human resources management in a Hong Kong listed company and other retail & information technology companies.



Corporate Governance Report

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

The Company has complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices (the "**CG Code**") as set forth in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") of the Stock Exchange throughout the year ended 31 December 2009.

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

Corporate Governance Report *(continued)*

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 17 to 19 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 2008 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 independence to the Company pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors meet the independence guideline set forth in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The Chairman and Chief Executive Officer

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

Board Meetings

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

Corporate Governance Report *(continued)*

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 2009

| | Board | Audit Committee | Remuneration Committee | Nomination Committee |
|---|-------|--------------------|---------------------------|-------------------------|
| Number of meetings held during the year | 4 | 2 | 1 | 1 |
| Executive Directors: | | | | |
| Mr. Chung Wai Ping (<i>Chairman</i>) | 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 (<i>Chief Executive Officer</i>) | 4/4 | N/A | N/A | N/A |
| Ms. Wong Fun Ching | 4/4 | N/A | N/A | N/A |
| Mr. Ho Yuen Wah | 4/4 | N/A | N/A | N/A |
| Non-executive Directors: | | | | |
| Mr. Fong Siu Kwong | 4/4 | N/A | 1/1 | N/A |
| Mr. Chan Yue Kwong, Michael | 4/4 | 2/2 | N/A | 1/1 |
| Independent non-executive Directors: | | | | |
| Mr. Li Tze Leung | 4/4 | 2/2 | 1/1 | N/A |
| Professor Chan Chi Fai, Andrew | 4/4 | 1/2 | N/A | 1/1 |
| Mr. Mak Hing Keung, Thomas | 3/4 | 2/2 | 1/1 | N/A |
| Mr. Ng Yat Cheung | 4/4 | N/A | N/A | 1/1 |
| Average attendance rate | 95.8% | 87.5% | 100.0% | 100.0% |

Corporate Governance Report *(continued)*

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 2009:

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, both 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.

Corporate Governance Report *(continued)*

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

The following is a summary of the work performed by the Nomination Committee during the year ended 31 December 2009:

1. Review and recommend on the renewal of service contracts for the Non-executive Directors and Independent Non-executive Directors; and
2. Make recommendation on the re-election of the directors to be proposed for shareholders' approval at the annual general meeting on 21 May 2009.

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 2009, 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 2009, 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.

Corporate Governance Report (continued)

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 2009 is as follows:

| | 2009 HK\$'000 | 2008 HK\$'000 |
|-------------------------------------|------------------|------------------|
| Audit fee | | |
| — provision for the year | 2,700 | 3,000 |
| — under provision in the prior year | — | 300 |
| Non-audit service fees | 663 | 50 |
| Total | 3,363 | 3,350 |

Fees for non-audit services comprised 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.

Management recognizes that enhancement of internal control system is necessary to support the continual growth of the Group. In the light of this, the Group has appointed external consultant — Deloitte Touche Tohmatsu to review the Group's internal control system, workflows and the management systems during the year. Three areas, namely leasing process, food and beverage licensing process and food safety process, were selected for the internal control assessment for 2009.

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 2009.

Principal Activities

The principal activity of the Company is investment holding. The Group is principally involved in the restaurant and bakery operations, provision of food catering services, production, sale and distribution of food products and operating items related to restaurant operations. The activities of the principal subsidiaries are set forth on in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and Dividends

The results of the Group for the year ended 31 December 2009 and state of affairs of the Company and the Group as at that date are set forth in financial statements on pages 38 to 111.

An interim dividend of HK\$4.65 cents and a special dividend of HK\$1.55 cents per ordinary share, totaling approximately HK\$63,000,000 were paid on 16 October 2009. The directors recommended the payment of a final dividend of HK\$6.30 cents per ordinary share, totaling approximately HK\$64,000,000 in respect of the year to shareholders on the register of members on 19 May 2010. The proposed final dividend for the year ended 31 December 2009 has been approved at the Company's board meeting on 30 March 2010. 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 2009 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 Thursday, 20 May 2010 to Tuesday, 25 May 2010, 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 Wednesday, 19 May 2010.

Use of Proceeds from the Company's Initial Public Offering

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange in June 2007, after the deduction of related issuance expenses, amounted to approximately HK\$405 million. These proceeds were fully applied during the year ended 31 December 2009 in accordance with the proposed applications set out in the Prospectus.

Report of the Directors *(continued)*

Summary Financial Information

A summary of the published results and assets, liabilities and minority of the Group for the last five years, as extracted from the consolidated financial statements and restated as appropriate, is set forth on pages 113 to 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 112.

Share Capital and Share Options

Details of the movements in share capital and share options of the Company are set forth in notes 31 and 32 to the financial statements.

Pre-Emptive Rights

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

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

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

Share Option Schemes

(a) Pre-IPO Share Option Scheme

Pursuant to the Pre-IPO Share Option Scheme on 9 June 2007, the Company has granted 15,190,000 options to eligible directors, senior management and employees of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated under the Pre-IPO Share Option Scheme. The exercise price shall be 50% of the final offer price to the public. The Pre-IPO Share Option Scheme will remain in force for a period of 10 years from the grant date. 250,000 options were cancelled upon the termination of employment during the year under review.

Report of the Directors *(continued)*

During the year, 1,770,000 options granted under the Pre-IPO Share Option Scheme have been exercised. Share options granted under the Pre-IPO Share Option Scheme are exercisable at HK\$1.59 per share and the holders of the said share options may exercise the share options during the period from 29 June 2009 to 28 June 2012, both days inclusive.

Details of the share options outstanding as at 31 December 2009 which have been granted under the Pre-IPO Share Option Scheme are as follows:

| Name | Date of grant | Number of ordinary shares (long position) | | | | | Options outstanding at 31 December 2009 |
|----------------------------|---------------|---|-------------------------|-----------------------------------|--------------------------|--|---|
| | | Options outstanding at 1 January 2009 | Granted during the year | Options exercised during the year | Options lapsed on expiry | Options cancelled upon termination of employment | |
| <i>Executive Directors</i> | | | | | | | |
| Mr. Leung Yiu Chun | 9 June 2007 | 800,000 | — | (240,000) | — | — | 560,000 |
| Ms. Wong Fun Ching | 9 June 2007 | 800,000 | — | (240,000) | — | — | 560,000 |
| Other employees | 9 June 2007 | 11,510,000 | — | (1,290,000) | — | (250,000) | 9,970,000 |
| | | 13,110,000 | — | (1,770,000) | — | (250,000) | 11,090,000 |

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

Report of the Directors *(continued)*

Distributable Reserves

At 31 December 2009, 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\$812,018,000 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\$150,000.

Major Customers and Suppliers

For the year ended 31 December 2009, 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 33.7% and 17.8% 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

Report of the Directors *(continued)*

Pursuant to article 87(1) of the Company's articles of association, the following Executive Directors namely Messrs Chung Ming Fat and Leung Yiu Chun, the following Non-executive Director namely Mr. Chan Yue Kwong, Michael, and the following Independent Non-executive Director, namely Mr Ng Yat Cheung will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

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

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set forth on pages 17 to 19.

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).

The Company has renewed the service contracts of each of the Non-executive Directors and Independent Non-executive Directors for a term of two year commencing from 29 June 2008 unless and terminated by either party giving to other not less than one month's prior notice in writing.

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.

Report of the Directors (continued)

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 2009.

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2009, 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:

| Name of Directors | Notes | Number of ordinary shares (long position) | | | | Total interests | % of total issued shares |
|---|----------|---|------------------|---------------------|--------------------|-----------------|--------------------------|
| | | Personal interests | Family interests | Corporate interests | Equity derivatives | | |
| 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) | — | — | 59,795,068 | — | 59,795,068 | 5.88 |
| 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:

- 372,597,689 shares were held by Billion Era International Limited, which is wholly-owned by Mr. Chung Wai Ping.
- 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.
- These shares were held by Whole Gain Holdings Limited, which is wholly-owned by Mr. Chung Ming Fat.
- 12,174,222 shares were held by Ms. Chan Sai Ying, spouse of Mr. Chung Wai Ping.
- 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.

Save as disclosed above, as at 31 December 2009, the Directors were 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.

Report of the Directors (continued)

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

As at 31 December 2009, 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:

| Name of Shareholder | Notes | Number of ordinary shares (long position) | |
|------------------------------------|-------|--|-----------------------------|
| | | 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 | | 102,053,976 | 10.04 |
| Value Partners Limited | | 88,615,000 | 8.72 |
| Whole Gain Holdings Limited | (c) | 59,795,068 | 5.88 |

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 Whole Gain Holdings Limited, which is beneficially owned by Mr. Chung Ming Fat.

Save as disclosed above, as at 31 December 2009, 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 32 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.

Report of the Directors *(continued)*

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 31 December 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\$18,600,000.

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 the them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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 and 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.

Report of the Directors *(continued)*

Event after the Reporting Period

Details of the significant event after the reporting period of the Group are set out in note 43 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
30 March 2010

Independent Auditors' Report



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

We have audited the financial statements of Tao Heung Holdings Limited set out on pages 38 to 111, which comprise the consolidated and company statements of financial position as at 31 December 2009, 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 notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 financial statements.

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

Independent Auditors' Report *(continued)*

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

18th Floor,

Two International Finance Centre,

8 Finance Street, Central,

Hong Kong

30 March 2010

Consolidated Income Statement

Year ended 31 December 2009

| | Notes | 2009 HK\$'000 | 2008 HK\$'000 (Restated) |
|---|-------|--------------------|--------------------------------|
| REVENUE | 5 | 2,610,410 | 2,444,316 |
| Cost of sales | | (2,208,749) | (2,076,033) |
| Gross profit | | 401,661 | 368,283 |
| Other income and gains, net | 5 | 13,605 | 12,142 |
| Selling and distribution costs | | (49,565) | (43,413) |
| Administrative expenses | | (108,473) | (105,627) |
| Finance costs | 6 | (914) | (2,406) |
| Share of profits and losses of associates, net | | 175 | 189 |
| PROFIT BEFORE TAX | 7 | 256,489 | 229,168 |
| Income tax expense | 10 | (46,136) | (37,308) |
| PROFIT FOR THE YEAR | | 210,353 | 191,860 |
| Attributable to: | | | |
| Owners of the parent | 11 | 208,530 | 189,129 |
| Minority interests | | 1,823 | 2,731 |
| | | 210,353 | 191,860 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| — Basic (HK cents) | 13 | 20.54 | 18.64 |
| — Diluted (HK cents) | 13 | 20.52 | 18.64 |

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

In the prior year, the Group presented its income statement by the nature of expense. During the current year, the directors considered it more appropriate to present the income statement by the function of expense to be in line with the general accounting practice in the restaurant and food catering industries. Accordingly, the comparative amounts have been reclassified to conform with the current year's presentation.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

| | Note | 2009 HK\$'000 | 2008 HK\$'000 |
|---|------|------------------|------------------|
| PROFIT FOR THE YEAR | | 210,353 | 191,860 |
| OTHER COMPREHENSIVE INCOME | | | |
| Exchange differences on translation of foreign operations | | 2,830 | 14,659 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 213,183 | 206,519 |
| Attributable to: | | | |
| Owners of the parent | 11 | 211,360 | 203,788 |
| Minority interests | | 1,823 | 2,731 |
| | | 213,183 | 206,519 |

Consolidated Statement of Financial Position

31 December 2009

| | Notes | 2009 HK\$'000 | 2008 HK\$'000 |
|--|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | 579,509 | 560,835 |
| Prepaid land lease payments | 15 | 88,970 | 67,985 |
| Investment properties | 16 | 7,190 | 15,200 |
| Goodwill | 17 | 22,020 | 16,827 |
| Interests in associates | 19 | 1,254 | 5,260 |
| Deferred tax assets | 20 | 58,230 | 45,258 |
| Rental deposits | | 61,385 | 51,981 |
| Deposits for purchases of items of property, plant and equipment | | 7,388 | 13,582 |
| Pledged deposits | 25 | — | 15,648 |
| Financial assets at fair value through profit or loss | 21 | — | 38,215 |
| Total non-current assets | | 825,946 | 830,791 |
| CURRENT ASSETS | | | |
| Inventories | 22 | 42,178 | 64,365 |
| Trade receivables | 23 | 14,273 | 12,072 |
| Prepayments, deposits and other receivables | 24 | 55,058 | 54,518 |
| Financial assets at fair value through profit or loss | 21 | 38,885 | 109,966 |
| Tax recoverable | | 5,265 | 2,421 |
| Pledged deposits | 25 | 36,756 | 5,520 |
| Cash and cash equivalents | 25 | 427,535 | 279,132 |
| Total current assets | | 619,950 | 527,994 |
| CURRENT LIABILITIES | | | |
| Trade payables | 26 | 93,785 | 86,048 |
| Other payables and accruals | 27 | 166,005 | 167,453 |
| Interest-bearing bank borrowings | 28 | 16,926 | 19,591 |
| Finance lease payables | 29 | 94 | 221 |
| Due to a related company | 30 | — | 628 |
| Due to a minority shareholder of subsidiaries | 30 | 2,321 | 1,258 |
| Tax payable | | 25,535 | 20,381 |
| Total current liabilities | | 304,666 | 295,580 |
| NET CURRENT ASSETS | | 315,284 | 232,414 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,141,230 | 1,063,205 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | 28 | 11,273 | 28,025 |
| Finance lease payables | 29 | 23 | 117 |
| Deferred tax liabilities | 20 | 1,813 | 2,945 |
| Total non-current liabilities | | 13,109 | 31,087 |
| Net assets | | 1,128,121 | 1,032,118 |

Consolidated Statement of Financial Position *(continued)*

31 December 2009

| | Notes | 2009 HK\$'000 | 2008 HK\$'000 |
|---|-------|------------------|------------------|
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | 31 | 101,614 | 101,437 |
| Reserves | 33(a) | 960,819 | 867,508 |
| Proposed final and special dividends | 12 | 64,017 | 60,862 |
| | | 1,126,450 | 1,029,807 |
| Minority interests | | 1,671 | 2,311 |
| Total equity | | 1,128,121 | 1,032,118 |

Chung Wai Ping
Director

Leung Yiu Chun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

| | Notes | Attributable to owners of the parent | | | | | | | | | | | |
|---|-------|--------------------------------------|----------------------|----------------------|---------------------|----------------------|----------------------------|------------------------------|----------------------|--------------------------------------|-----------|--------------------|--------------|
| | | Issued capital | Share premium | Capital reserve | Other reserve | Share option reserve | Capital redemption reserve | Exchange fluctuation reserve | Retained profits | Proposed final and special dividends | Total | Minority interests | Total equity |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2008 | | 101,446 | 310,550 | 110,748 | 21,136 | 5,655 | — | 13,811 | 315,459 | 50,723 | 929,528 | 2,099 | 931,627 |
| Total comprehensive income for the year | | — | — | — | — | — | — | 14,659 | 189,129 | — | 203,788 | 2,731 | 206,519 |
| Repurchase of shares | 31(a) | (9) | (98) | — | — | — | 9 | — | (9) | — | (107) | — | (107) |
| Equity-settled share option arrangements | | — | — | — | — | 8,189 | — | — | — | — | 8,189 | — | 8,189 |
| Acquisition of minority interests | | — | — | — | — | — | — | — | — | — | — | (319) | (319) |
| Dividend paid to a minority shareholder of subsidiaries | | — | — | — | — | — | — | — | — | — | — | (2,200) | (2,200) |
| Final 2007 dividend declared | | — | — | — | — | — | — | — | — | (50,723) | (50,723) | — | (50,723) |
| Interim 2008 dividend | 12 | — | — | — | — | — | — | — | (60,868) | — | (60,868) | — | (60,868) |
| Proposed final 2008 dividend | 12 | — | — | — | — | — | — | — | (45,646) | 45,646 | — | — | — |
| Proposed special 2008 dividend | 12 | — | — | — | — | — | — | — | (15,216) | 15,216 | — | — | — |
| At 31 December 2008 | | 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 |
| 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 |
| Total comprehensive income for the year | | — | — | — | — | — | — | 2,830 | 208,530 | — | 211,360 | 1,823 | 213,183 |
| Equity-settled share option arrangements | | — | — | — | — | 6,332 | — | — | — | — | 6,332 | — | 6,332 |
| Issue of shares | 31(b) | 177 | 6,074 | — | — | (3,437) | — | — | — | — | 2,814 | — | 2,814 |
| Acquisition of subsidiaries | | — | — | — | — | — | — | — | — | — | — | 777 | 777 |
| Dividend paid to a minority 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 |

* These reserve accounts comprise the consolidated reserves of HK\$960,819,000 (2008: HK\$867,508,000) in the consolidated statement of financial position.

Consolidated Cash Flow Statement

Year ended 31 December 2009

| | Notes | 2009 HK\$'000 | 2008 HK\$'000 |
|--|-------|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | 256,489 | 229,168 |
| Adjustments for: | | | |
| Dividend income from unlisted investments | 5 | (1,101) | (514) |
| Excess over the cost of a business combination | 5 | — | (171) |
| Share of profits and losses of associates, net | | (175) | (189) |
| Fair value losses/(gains) on investment properties | 5 | (690) | 500 |
| Interest income | 5 | (2,615) | (5,846) |
| Gain on disposal of items of property, plant and equipment, net | 5 | (393) | — |
| Gain on disposal of investment properties | 5 | (1,000) | — |
| Finance costs | 6 | 914 | 2,406 |
| Fair value losses/(gains) on financial assets at fair value through profit or loss, net | 5 | (645) | 1,873 |
| Write-off of items of property, plant and equipment | 7 | 1,096 | 1,498 |
| Depreciation of property, plant and equipment | 7 | 161,565 | 129,505 |
| Recognition of prepaid land lease payments | 7 | 1,267 | 1,043 |
| Equity-settled share option expense | 7 | 6,332 | 8,189 |
| | | 421,044 | 367,462 |
| Increase in rental deposits | | (9,281) | (7,037) |
| Decrease/(increase) in pledged deposits | | (15,588) | 10,359 |
| Decrease/(increase) in inventories | | 22,921 | (21,066) |
| Decrease/(increase) in trade receivables | | (1,434) | 2,281 |
| Decrease/(increase) in prepayments, deposits and other receivables | | 3,628 | (20,555) |
| Decrease in amounts due from directors | | — | 2,590 |
| Increase/(decrease) in trade payables | | 6,007 | (2,049) |
| Increase/(decrease) in other payables and accruals | | (6,164) | 4,220 |
| Decrease in an amount due to a related company | | (628) | — |
| Cash generated from operations | | 420,505 | 336,205 |
| Interest paid | | (829) | (2,025) |
| Hong Kong profits tax paid | | (45,957) | (38,801) |
| Overseas taxes paid | | (11,903) | (10,857) |
| Net cash flows from operating activities | | 361,816 | 284,522 |

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2009

| | Notes | 2009 HK\$'000 | 2008 HK\$'000 |
|--|-------|------------------|------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | | (160,509) | (250,958) |
| Deposits paid for purchases of items of property, plant and equipment | | (7,388) | (13,582) |
| Additions to prepaid land lease payment | | (22,622) | — |
| Acquisition of minority interests | | — | (148) |
| Acquisition of subsidiaries | 34 | (4,828) | — |
| Acquisition of an associate | | (4) | — |
| Purchases of financial assets at fair value through profit or loss | | — | (100,747) |
| Proceeds from redemption of financial assets at fair value through profit or loss | | 109,941 | 32,700 |
| Proceeds from disposal of investment properties | | 9,700 | — |
| Proceeds from disposal of items of property, plant and equipment | | 839 | — |
| Interest received | | 2,615 | 5,846 |
| Dividends received from unlisted investments | | 1,101 | 514 |
| Net cash flows used in investing activities | | (71,155) | (326,375) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | 31(b) | 2,814 | — |
| Shares repurchased | 31(a) | — | (107) |
| Repayment of bank loans | | (19,417) | (23,577) |
| Capital element of finance lease payments | | (221) | (414) |
| Interest element of finance lease payments | | (22) | (41) |
| Dividends paid | | (123,863) | (111,591) |
| Dividends paid to a minority shareholder of subsidiaries | | (3,240) | (2,200) |
| Increase/(decrease) in an amount due to a minority shareholder of subsidiaries | | 1,063 | (1,000) |
| Interest expense on a loan from a minority shareholder of subsidiaries | | (63) | (340) |
| Net cash flows used in financing activities | | (142,949) | (139,270) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents at beginning of year | | 279,132 | 459,486 |
| Effect of foreign exchange rate changes, net | | 691 | 769 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 427,535 | 279,132 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | 333,638 | 202,566 |
| Non-pledged time deposits with original maturity of less than three months when acquired | | 93,897 | 76,566 |
| | | 427,535 | 279,132 |

Statement of Financial Position

31 December 2009

| | Notes | 2009 HK\$'000 | 2008 HK\$'000 |
|--------------------------------------|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiaries | 18 | 446,048 | 440,536 |
| CURRENT ASSETS | | | |
| Prepayments | 24 | 406 | 572 |
| Due from a subsidiary | 18 | 469,449 | 474,059 |
| Cash and cash equivalents | 25 | 15,034 | 44 |
| Total current assets | | 484,889 | 474,675 |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | 27 | 566 | 592 |
| NET CURRENT ASSETS | | | |
| Net assets | | 930,371 | 914,619 |
| EQUITY | | | |
| Issued capital | 31 | 101,614 | 101,437 |
| Reserves | 33(b) | 764,740 | 752,320 |
| Proposed final and special dividends | 12 | 64,017 | 60,862 |
| Total equity | | 930,371 | 914,619 |

Chung Wai Ping
Director

Leung Yiu Chun
Director

Notes to Financial Statements

31 December 2009

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

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. These financial statements are presented in Hong Kong dollars.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Contingent consideration is recognised if the adjustment is probable and can be measured reliably. Subsequent measurement to the contingent consideration affects goodwill.

Notes to Financial Statements (continued)

31 December 2009

2.1 Basis of Preparation (continued)

Basis of consolidation (continued)

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is 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 is recognised as goodwill.

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 and HKAS 27 Amendments | Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> |
| HKFRS 2 Amendments | Amendments to HKFRS 2 <i>Share-based Payment — Vesting Conditions and Cancellations</i> |
| HKFRS 7 Amendments | Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments</i> |
| HKFRS 8 | <i>Operating Segments</i> |
| HKAS 1 (Revised) | <i>Presentation of Financial Statements</i> |
| HKAS 18 Amendment* | Amendment to Appendix to HKAS 18 <i>Revenue — Determining whether an entity is acting as a principal or as an agent</i> |
| HKAS 23 (Revised) | <i>Borrowing Costs</i> |
| HKAS 32 and HKAS 1 Amendments | Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation</i> |
| HK(IFRIC)-Int 9 and HKAS 39 Amendments | Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement — Embedded Derivatives</i> |
| HK(IFRIC)-Int 13 | <i>Customer Loyalty Programmes</i> |
| HK(IFRIC)-Int 15 | <i>Agreements for the Construction of Real Estate</i> |
| HK(IFRIC)-Int 16 | <i>Hedges of a Net Investment in a Foreign Operation</i> |
| HK(IFRIC)-Int 18 | <i>Transfers of Assets from Customers</i> (adopted from 1 July 2009) |
| Improvements to HKFRSs (October 2008) ** | Amendments to a number of HKFRSs |

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*, which are effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKFRS 7 Amendments, HKFRS 8, HKAS 1 (Revised) and HK(IFRIC)-Int 13, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2.2 Changes in Accounting Policy and Disclosures (continued)

(a) Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 41 to the financial statements while the revised liquidity risk disclosures are presented in note 42 to the financial statements.

(b) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14.

(c) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(d) HK(IFRIC)-Int 13 *Customer Loyalty Programmes*

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. The adoption of this interpretation has had no significant impact on the financial position or results of operations of the Group.

Notes to Financial Statements (continued)

31 December 2009

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 (Revised) | <i>First-time Adoption of Hong Kong Financial Reporting Standards</i> ¹ |
| HKFRS 1 Amendments | <i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters</i> ² |
| HKFRS 1 Amendment | <i>Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> ⁴ |
| HKFRS 2 Amendments | <i>Amendments to HKFRS 2 Share-based Payment — Group Cash-settled Share-based Payment Transactions</i> ² |
| HKFRS 3 (Revised) | <i>Business Combinations</i> ¹ |
| HKFRS 9 | <i>Financial Instruments</i> ⁶ |
| HKAS 24 (Revised) | <i>Related Party Disclosures</i> ⁵ |
| HKAS 27 (Revised) | <i>Consolidated and Separate Financial Statements</i> ¹ |
| HKAS 32 Amendment | <i>Amendment to HKAS 32 Financial Instruments: Presentation — Classification of Rights Issues</i> ³ |
| HKAS 39 Amendment | <i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items</i> ¹ |
| HK(IFRIC)-Int 14 Amendment | <i>Amendment to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement</i> ⁵ |
| HK(IFRIC)-Int 17 | <i>Distributions of Non-cash Assets to Owners</i> ¹ |
| HK(IFRIC)-Int 19 | <i>Extinguishing Financial Liabilities with Equity Instruments</i> ⁴ |
| Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008 | <i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary</i> ¹ |
| HK Interpretation 4 (Revised in December 2009) | <i>Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i> ² |

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

¹ Effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 January 2010

³ Effective for annual periods beginning on or after 1 February 2010

⁴ Effective for annual periods beginning on or after 1 July 2010

⁵ Effective for annual periods beginning on or after 1 January 2011

⁶ Effective for annual periods beginning on or after 1 January 2013

Notes to Financial Statements *(continued)*

31 December 2009

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

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 interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

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

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

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

Associates

An associate is an entity, not being a subsidiary, 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 interests 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 interests 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 interests in associates and is not individually tested for impairment.

2.4 Summary of Significant Accounting Policies (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated statement of financial position.

The carrying amount of goodwill is reviewed 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.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and associates, after reassessment, is recognised immediately in the income statement.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets other than goodwill

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

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

An assessment is made at the end of each reporting period as to whether there is 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); or
- (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).

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. 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:

| | |
|-----------------------------------|--|
| Buildings | Over the shorter of the lease term and 2%–5% |
| Leasehold improvements | 10%–33 $\frac{1}{3}$ % |
| Furniture, fixtures and equipment | 20%–33 $\frac{1}{3}$ % |
| 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.

Notes to Financial Statements (continued)

31 December 2009

2.4 Summary of Significant Accounting Policies (continued)

Investment properties

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

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

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases 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.

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.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

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.

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 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.

2.4 Summary of Significant Accounting Policies (continued)

Derecognition of financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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.

Notes to Financial Statements (continued)

31 December 2009

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 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 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; and 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 interests 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.

Notes to Financial Statements (continued)

31 December 2009

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 interests 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.

2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition

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

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

2.4 Summary of Significant Accounting Policies (continued)

Share-based payment transactions (continued)

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.

Other employee benefits

Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the 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.

2.4 Summary of Significant Accounting Policies (continued)

Dividends

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

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association 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.

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.

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.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Impairment of goodwill

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

Estimation of fair value of investment properties

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

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.

Notes to Financial Statements (continued)

31 December 2009

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 2009 and 2008, and certain non-current asset information as at 31 December 2009 and 2008, by geographic area.

(a) Revenue from external customers

| | 2009 | 2008 |
|----------------|------------------|-----------|
| | HK\$'000 | HK\$'000 |
| Hong Kong | 2,159,393 | 2,047,703 |
| Mainland China | 451,017 | 396,613 |
| | 2,610,410 | 2,444,316 |

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

(b) Non-current assets

| | 2009 | 2008 |
|----------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Hong Kong | 335,579 | 310,844 |
| Mainland China | 370,752 | 368,845 |
| | 706,331 | 679,689 |

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

Notes to Financial Statements (continued)

31 December 2009

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 | |
|--|------------------|--------------------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 (Restated) |
| Revenue | | |
| Restaurant and bakery operations | 2,557,917 | 2,402,704 |
| Sale of food | 52,493 | 41,612 |
| | 2,610,410 | 2,444,316 |
| Other income and gains, net | | |
| Bank interest income | 2,615 | 5,846 |
| Dividend income from unlisted investments | 1,101 | 514 |
| Fair value gains/(losses) on financial assets at fair value through profit or loss, net | 645 | (1,873) |
| Fair value gain/(losses) on investment properties | 690 | (500) |
| Gain on disposal of investment properties | 1,000 | — |
| Gross rental income from investment properties | 411 | 712 |
| Sponsorship income | 4,933 | 3,349 |
| Excess over the cost of a business combination | — | 171 |
| Gain on disposal of items of property, plant and equipment, net | 393 | — |
| Others | 1,817 | 3,923 |
| | 13,605 | 12,142 |

6. Finance Costs

| | Group | |
|---|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 |
| Interest on bank loans wholly repayable | | |
| — Within five years | 812 | 2,002 |
| — Beyond five years | 17 | 23 |
| Interest on finance leases | 22 | 41 |
| Interest on an amount due to a minority shareholder of subsidiaries | 63 | 340 |
| Total interest expense on financial liabilities not at fair value through profit or loss | 914 | 2,406 |

Notes to Financial Statements (continued)

31 December 2009

7. Profit Before Tax

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

| | 2009 HK\$'000 | 2008 HK\$'000 |
|---|------------------|------------------|
| Cost of inventories sold | 835,704 | 786,476 |
| Depreciation* | 161,565 | 129,505 |
| Recognition of prepaid land lease payments* | 1,267 | 1,043 |
| Gross rental income from investment properties | (411) | (712) |
| Less: Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties | 13 | 8 |
| Net rental income | (398) | (704) |
| Employee benefit expenses* (including directors' remuneration (note 8)): | | |
| Salaries and bonuses | 672,905 | 649,799 |
| Retirement benefit scheme contributions (defined contribution schemes) | 35,738 | 34,597 |
| Equity-settled share option expense | 6,332 | 8,189 |
| | 714,975 | 692,585 |
| Lease payments under operating leases in respect of land and buildings*: | | |
| Minimum lease payments | 186,167 | 164,104 |
| Contingent rents | 9,997 | 8,295 |
| | 196,164 | 172,399 |
| Auditors' remuneration | | |
| — provision for the year | 3,108 | 3,368 |
| — underprovision in the prior year | — | 300 |
| | 3,108 | 3,668 |
| Foreign exchange differences, net | 466 | (217) |
| Write-off of items of property, plant and equipment | 1,096 | 1,498 |

* The cost of sales for the year amounted to HK\$2,208,749,000 (2008: HK\$2,076,033,000) and included depreciation charges of HK\$152,653,000 (2008: HK\$122,285,000), recognition of prepaid land lease payments of HK\$1,267,000 (2008: HK\$1,043,000), employee benefit expenses of HK\$656,815,000 (2008: HK\$636,016,000) and operating lease rentals of HK\$193,488,000 (2008: HK\$169,869,000).

Notes to Financial Statements (continued)

31 December 2009

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 | |
|--|--------------|----------|
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Fees | 864 | 804 |
| Other emoluments: | | |
| Salaries | 3,169 | 3,051 |
| Discretionary bonuses | 254 | 702 |
| Equity-settled share option benefits | 820 | 1,082 |
| Retirement benefit scheme contributions (defined contribution schemes) | 66 | 66 |
| | 5,173 | 5,705 |

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 32 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.

Notes to Financial Statements (continued)

31 December 2009

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 |

Notes to Financial Statements (continued)

31 December 2009

8. Directors' Remuneration (continued)

| 2008 | 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 | 51 | — | 6 | 177 |
| Mr. Chung Ming Fat | — | 453 | 91 | — | 12 | 556 |
| Mr. Wong Ka Wing | — | 544 | 111 | — | 12 | 667 |
| Mr. Leung Yiu Chun | — | 867 | 207 | 541 | 12 | 1,627 |
| Ms. Wong Fun Ching | — | 541 | 135 | 541 | 12 | 1,229 |
| Mr. Ho Yuen Wah | — | 526 | 107 | — | 12 | 645 |
| | — | 3,051 | 702 | 1,082 | 66 | 4,901 |
| Non-executive directors: | | | | | | |
| Mr. Fong Siu Kwong | 134 | — | — | — | — | 134 |
| Mr. Chan Yue Kwong, Michael | 134 | — | — | — | — | 134 |
| | 268 | — | — | — | — | 268 |
| Independent non-executive directors: | | | | | | |
| Mr. Li Tze Leung | 134 | — | — | — | — | 134 |
| Professor Chan Chi Fai, Andrew | 134 | — | — | — | — | 134 |
| Mr. Mak Hing Keung, Thomas | 134 | — | — | — | — | 134 |
| Mr. Ng Yat Cheung | 134 | — | — | — | — | 134 |
| | 536 | — | — | — | — | 536 |
| | 804 | 3,051 | 702 | 1,082 | 66 | 5,705 |

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

Notes to Financial Statements (continued)

31 December 2009

9. Five Highest Paid Employees

The five highest paid employees, during the year included three (2008: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2008: one) non-director, highest paid employees for the year are as follows:

| | Group | |
|--|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 |
| Salaries | 1,126 | 524 |
| Discretionary bonuses | 84 | 113 |
| Equity-settled share option benefits | 359 | 304 |
| Retirement benefit scheme contributions (defined contribution schemes) | 24 | 12 |
| | 1,593 | 953 |

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

| | Number of employees | |
|----------------------|---------------------|------|
| | 2009 | 2008 |
| Nil to HK\$1,000,000 | 2 | 1 |

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 32 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% (2008: 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 | |
|-------------------------------|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 |
| Current — Hong Kong | | |
| Charge for the year | 44,672 | 42,226 |
| Overprovision in prior years | (187) | (336) |
| Current — Mainland China | 15,627 | 7,778 |
| Deferred (note 20) | (13,976) | (12,360) |
| Total tax charge for the year | 46,136 | 37,308 |

Notes to Financial Statements (continued)

31 December 2009

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 charge at the Group's effective tax rate, is as follows:

| | 2009 | Group | | 2008 |
|--|----------------|-------------|----------|------|
| | HK\$'000 | % | HK\$'000 | % |
| Profit before tax | 256,489 | | 229,168 | |
| Tax at the Hong Kong statutory tax rate | 42,321 | 16.5 | 37,813 | 16.5 |
| Difference in tax rates applied for specific provinces in Mainland China | 1,485 | | (2,425) | |
| Effect on opening deferred tax of decrease in rates | — | | 1,034 | |
| Adjustments in respect of current tax of previous years | (187) | | (336) | |
| Profits and losses attributable to associates | 12 | | (31) | |
| Income not subject to tax | (695) | | (2,456) | |
| Expenses not deductible for tax | 1,716 | | 1,505 | |
| Tax losses utilised from previous periods | — | | (454) | |
| Tax losses not recognised | 1,389 | | 2,397 | |
| Others | 95 | | 261 | |
| Tax charge at the Group's effective rate | 46,136 | 18.0 | 37,308 | 16.3 |

During the year ended 31 December 2008, the share of tax attributable to an associate amounting to HK\$41,000 was included in "Share of profits and losses of associates, net" on the face of the consolidated income statement.

11. Profit Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of approximately HK\$130,469,000 (2008: HK\$122,006,000) which has been dealt with in the financial statements of the Company (note 33(b)).

Notes to Financial Statements (continued)

31 December 2009

12. Dividends

| | Group | |
|---|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 |
| Interim — HK4.65 cents (2008: HK6.00 cents) per ordinary share | 47,251 | 60,868 |
| Special — HK1.55 cents (2008: Nil) per ordinary share | 15,750 | — |
| Proposed final — HK6.30 cents (2008: HK4.50 cents) per ordinary share | 64,017 | 45,646 |
| Proposed special — Nil (2008: HK1.50 cents) per ordinary share | — | 15,216 |
| | 127,018 | 121,730 |

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 1,015,033,541 (2008: 1,014,451,178) 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 of the Pre-IPO Share Option Scheme.

No adjustment was made to the basic earnings per share amount presented for the year ended 31 December 2008 in respect of a dilution as the employee share options had no dilutive effect on the basic earnings per share.

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

| | 2009 HK\$'000 | 2008 HK\$'000 |
|--|----------------------|------------------|
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | 208,530 | 189,129 |
| | | |
| | Number of shares | |
| | 2009 | 2008 |
| Shares | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | 1,015,033,541 | 1,014,451,178 |
| Effect of dilution — weighted average number of ordinary shares: | | |
| Share options | 1,072,295 | — |
| | 1,016,105,836 | 1,014,451,178 |

Notes to Financial Statements (continued)

31 December 2009

14. Property, Plant and Equipment

Group

| | Buildings HK\$'000 | Leasehold improvements HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|--|-----------------------|---------------------------------------|---|-------------------------------|-------------------|
| 31 December 2009 | | | | | |
| Cost: | | | | | |
| At 1 January 2009 | 153,846 | 504,006 | 293,575 | 12,933 | 964,360 |
| Acquisitions of subsidiaries (note 34) | — | 2,910 | 1,427 | 203 | 4,540 |
| Additions | 29,829 | 95,088 | 49,991 | 734 | 175,642 |
| 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 | 184,161 | 565,726 | 324,368 | 12,363 | 1,086,618 |
| Accumulated depreciation: | | | | | |
| At 1 January 2009 | 27,906 | 233,146 | 134,967 | 7,506 | 403,525 |
| Provided during the year | 6,330 | 99,975 | 53,156 | 2,104 | 161,565 |
| 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 | 34,278 | 296,182 | 168,109 | 8,540 | 507,109 |
| Net book value: | | | | | |
| At 31 December 2009 | 149,883 | 269,544 | 156,259 | 3,823 | 579,509 |

Notes to Financial Statements (continued)

31 December 2009

14. Property, Plant and Equipment (continued)

Group (continued)

| | Buildings HK\$'000 | Leasehold improvements HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|---------------------------|-----------------------|---------------------------------------|---|-------------------------------|-------------------|
| 31 December 2008 | | | | | |
| Cost: | | | | | |
| At 1 January 2008 | 146,446 | 362,658 | 187,366 | 11,237 | 707,707 |
| Additions | 1,204 | 160,758 | 106,375 | 1,541 | 269,878 |
| Write-off | — | (25,588) | (3,913) | — | (29,501) |
| Exchange realignment | 6,196 | 6,178 | 3,747 | 155 | 16,276 |
| At 31 December 2008 | 153,846 | 504,006 | 293,575 | 12,933 | 964,360 |
| Accumulated depreciation: | | | | | |
| At 1 January 2008 | 22,162 | 175,859 | 95,916 | 5,218 | 299,155 |
| Provided during the year | 5,539 | 79,643 | 42,067 | 2,256 | 129,505 |
| Write-off | — | (24,135) | (3,868) | — | (28,003) |
| Exchange realignment | 205 | 1,779 | 852 | 32 | 2,868 |
| At 31 December 2008 | 27,906 | 233,146 | 134,967 | 7,506 | 403,525 |
| Net book value: | | | | | |
| At 31 December 2008 | 125,940 | 270,860 | 158,608 | 5,427 | 560,835 |

As at 31 December 2009, the net book value of the Group's property, plant and equipment held under finance leases included in the total amount of furniture, fixtures and equipment and motor vehicles amounted to HK\$201,000 (2008: HK\$328,000).

As at 31 December 2009, all of the leasehold land (note 15) and buildings with a total carrying value of HK\$96,843,000 (2008: HK\$98,662,000) situated in Hong Kong were pledged to secure the banking facilities granted to the Group (note 28).

Notes to Financial Statements (continued)

31 December 2009

15. Prepaid Land Lease Payments

| | Group | |
|---|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 |
| Carrying amount at 1 January | 69,032 | 69,593 |
| Additions | 22,622 | — |
| Recognised during the year | (1,267) | (1,043) |
| Exchange realignment | 36 | 482 |
| Carrying amount at 31 December | 90,423 | 69,032 |
| Current portion included in prepayments, deposits and other receivables (note 24) | (1,453) | (1,047) |
| Non-current portion | 88,970 | 67,985 |

An analysis of the Group's leasehold land by geographical location and lease term is as follows:

| | 2009 HK\$'000 | 2008 HK\$'000 |
|--|------------------|------------------|
| Situated in Hong Kong | | |
| — Long term leases | 28,846 | 28,880 |
| — Medium term leases | 42,539 | 33,071 |
| Situated in Mainland China under a medium term lease | 19,038 | 7,081 |
| | 90,423 | 69,032 |

16. Investment Properties

| | Group | |
|--|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 |
| Carrying amount at 1 January | 15,200 | 15,700 |
| Disposals | (8,700) | — |
| Net profit/(loss) from a fair value adjustment | 690 | (500) |
| Carrying amount at 31 December | 7,190 | 15,200 |

Notes to Financial Statements (continued)

31 December 2009

16. Investment Properties (continued)

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

| | 2009 HK\$'000 | 2008 HK\$'000 |
|--------------------|------------------|------------------|
| Long term leases | 5,940 | 5,400 |
| Medium term leases | 1,250 | 9,800 |
| | 7,190 | 15,200 |

The Group's investment properties were revalued on 31 December 2009 by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, at HK\$7,190,000 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 37(a) to the financial statements.

At 31 December 2009, the Group's investment properties with a total carrying amount of HK\$6,090,000 (2008: HK\$14,200,000) were pledged to secure banking facilities granted to the Group (note 28).

17. Goodwill

| | Group | |
|---|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 |
| Cost at 1 January | 16,827 | 16,827 |
| Reclassified from interests in associates | 1,407 | — |
| Acquisition of subsidiaries (note 34) | 3,786 | — |
| Cost and carrying amount at 31 December | 22,020 | 16,827 |

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

Notes to Financial Statements (continued)

31 December 2009

17. Goodwill (continued)

Impairment testing of goodwill (continued)

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

| | Group | |
|-----------------------|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 |
| Restaurant operations | 16,766 | 16,766 |
| Bakery operations | 5,193 | — |
| Property investment | 61 | 61 |
| | 22,020 | 16,827 |

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% (2008: 5%), and cash flows beyond the five-year period are extrapolated using an average growth rate of 2% (2008: 2%).

Key assumptions were used in the value in use calculation of the Cash-generating Units for the years ended 31 December 2009 and 2008. 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. Interests in Subsidiaries

| | Company | |
|--|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 |
| Unlisted shares, at cost | 428,382 | 428,382 |
| Capital contribution in respect of employee share-based compensation | 17,666 | 12,154 |
| | 446,048 | 440,536 |

The amount due from a subsidiary included in the Company's current assets of approximately HK\$469,449,000 (2008: HK\$474,059,000) is unsecured, interest-free and repayable on demand.

Notes to Financial Statements (continued)

31 December 2009

18. Interests in Subsidiaries (continued)

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 |
|--|---|---|--|------|---|
| | | | 2009 | 2008 | |
| <i>Directly held:</i> | | | | | |
| Sky Cheer Group Limited | British Virgin Islands/ Hong Kong | Ordinary US\$1 | 100% | 100% | Investment holding |
| <i>Indirectly held:</i> | | | | | |
| 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% | Restaurant operations and provision of food catering services |
| Sky Great Development Limited | Hong Kong | Ordinary HK\$2 | 100% | 100% | Restaurant operations and provision of food catering services |
| Sky Hero Development Limited | Hong Kong | Ordinary HK\$2 | 100% | 100% | Restaurant operations and provision of food catering services |

Notes to Financial Statements (continued)

31 December 2009

18. Interests 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 | | Principal activities |
|--|---|---|--|------|---|
| | | | 2009 | 2008 | |
| 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% | Restaurant operations and provision of food catering services |
| Skymart Limited | Hong Kong | Ordinary HK\$10,000 | 100% | 100% | Investment holding |
| Skywell Enterprise Limited | Hong Kong | Ordinary HK\$500,000 | 100% | 100% | Restaurant operations and provision of food catering services |
| Starway International Development Limited | Hong Kong | Ordinary HK\$2 | 100% | 100% | Restaurant operations and provision of food catering services |

Notes to Financial Statements (continued)

31 December 2009

18. Interests 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 | | Principal activities |
|--|---|---|--|------|--|
| | | | 2009 | 2008 | |
| Tao Heung Seafood Hotpot Restaurant Limited | Hong Kong | Ordinary HK\$38,000 | 100% | 100% | Provision of management and promotion services, trading of food and other operating items to restaurant operations and property investment |
| Tensel Investment Limited | Hong Kong | Ordinary HK\$1,000,000 | 100% | 100% | Investment holding |
| Top Eagle Development Limited | Hong Kong | Ordinary HK\$40,000 | 100% | 100% | Restaurant operations and provision of food catering services |
| Triumph Sky Holdings Limited | Hong Kong | Ordinary HK\$2 | 100% | 100% | Restaurant operations and provision of food catering services |
| Winsky Enterprise 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 |

Notes to Financial Statements (continued)

31 December 2009

18. Interests 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 | | Principal activities |
|-------------------------------|---|---|--|------|---|
| | | | 2009 | 2008 | |
| 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 ^{* ⑥} | People's Republic of China ("PRC")/ Mainland China | HK\$207,100,000 | 100% | 100% | Production, sale and distribution of food products |
| 深圳領鮮稻香飲食有限公司 ^{* ⑥} | PRC/Mainland China | HK\$32,000,000 | 100% | 100% | Restaurant operations and provision of food catering services |
| Basic Tech Limited | Hong Kong | Ordinary HK\$28,000 | 100% | 100% | Property investment |
| Huge Sky Investments Limited | Hong Kong | Ordinary HK\$291,000 | 100% | 100% | Property investment |
| Jetfat Investments Limited | Hong Kong | Ordinary HK\$291,000 | 100% | 100% | Restaurant operations and provision of food catering services |
| Nature Lion Limited | Hong Kong | Ordinary HK\$250,000 | 100% | 100% | Investment holding, property investment and sale and distribution of food products and operating items related to restaurant operations |
| Poly Sky Investment Limited | Hong Kong | Ordinary HK\$48,000 | 100% | 100% | Restaurant operations and provision of food catering services |

Notes to Financial Statements (continued)

31 December 2009

18. Interests 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 | | Principal activities |
|---|---|---|--|------|---|
| | | | 2009 | 2008 | |
| 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 |
| 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 |

Notes to Financial Statements (continued)

31 December 2009

18. Interests 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 | | Principal activities |
|--------------------------------------|---|---|--|------|---|
| | | | 2009 | 2008 | |
| 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 |
| 東莞天景稻香飲食 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% | — | Restaurant operations and provision of food catering services |
| Tai Cheong Holdings Group Limited | British Virgins Islands | Ordinary USD10,000 | 80% | 20% | Investment holding |
| Tai Cheong Bakery Company Limited | Hong Kong | Ordinary HK\$300,000 | 80% | 20% | Production and retail of bakery products |

Notes to Financial Statements (continued)

31 December 2009

18. Interests in Subsidiaries (continued)

| Company name | Place of incorporation/ registration/ operations | Nominal value of issued ordinary share capital/ registered paid-up capital | Percentage of equity attributable to the Company | | Principal activities |
|---|--|---|--|------|---|
| | | | 2009 | 2008 | |
| Tai Cheong (TM) Co., Limited | Hong Kong | Ordinary HK\$10,000 | 80% | 20% | Provision of promotion services |
| Tai Cheong (Kwun Tong) Bakery Co., Ltd | Hong Kong | Ordinary HK\$10,000 | 80% | 20% | Production and retail of bakery products |
| Tai Cheong (Macau) Bakery Limited [®] | Macau | Ordinary MOP25,000 | 80% | 20% | Production and retail of bakery products |

[®] Not audited by Ernst & Young Hong Kong or other 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.

Notes to Financial Statements (continued)

31 December 2009

19. Interests in Associates

| | Group | |
|--------------------------|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 |
| Share of net assets | 1,284 | 1,883 |
| Goodwill on acquisition | 122 | 1,529 |
| | 1,406 | 3,412 |
| Loan to an associate | — | 2,000 |
| Provision for impairment | (152) | (152) |
| | 1,254 | 5,260 |

As at 31 December 2008, the loan to an associate was unsecured, interest-free and fully settled during the year. In the opinion of the directors, the loan was considered as a quasi-equity investment in the associate.

Particulars of the associates are as follows:

| Company name | Particulars of issued shares held | Place of incorporation | Percentage of ownership interest attributable to the | | Principal activities |
|--------------------------------------|--------------------------------------|---------------------------|---|------|----------------------|
| | | | Group | 2008 | |
| | | | 2009 | 2008 | |
| 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% | — | Investment holding |

[®] Not audited by Ernst & Young Hong Kong or other 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 34 to the financial statements.

The above associates were indirectly held by the Company.

Notes to Financial Statements (continued)

31 December 2009

19. Interests in Associates (continued)

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

| | 2009 HK\$'000 | 2008 HK\$'000 |
|---------------|--------------------------------|------------------|
| Assets | 3,717 | 17,427 |
| Liabilities | (499) | (11,113) |
| Revenue | — | 29,571 |
| Profit/(loss) | (157) | 1,188 |

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 2008 | 26,439 | 5,781 | 32,220 |
| Deferred tax credited to the income statement during the year (note 10) | 1,450 | 10,827 | 12,277 |
| Exchange differences | 397 | 544 | 941 |
| Gross deferred tax assets at 31 December 2008 and 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 | 31,431 | 27,047 | 58,478 |

Notes to Financial Statements (continued)

31 December 2009

20. Deferred Tax (continued)

Deferred tax liabilities

| | Revaluation of investment properties HK\$'000 | Depreciation allowance in excess of related depreciation HK\$'000 | Total HK\$'000 |
|---|--|--|-------------------|
| At 1 January 2008 | 353 | 2,855 | 3,208 |
| Deferred tax charged/(credited) to the income statement during the year (note 10) | (102) | 19 | (83) |
| Gross deferred tax liabilities at 31 December 2008 and 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 | 9 | 2,052 | 2,061 |

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:

| | 2009 HK\$'000 | 2008 HK\$'000 |
|---|------------------|------------------|
| Net deferred tax assets recognised in the consolidated statement of financial position | 58,230 | 45,258 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | (1,813) | (2,945) |
| | 56,417 | 42,313 |

The Group has estimated tax losses arising in Hong Kong of approximately HK\$45,012,000 (2008: HK\$36,596,000) 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 2009, 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\$6,231,000 (2008: HK\$1,786,000) at 31 December 2009.

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

Notes to Financial Statements (continued)

31 December 2009

21. Financial Assets at Fair Value Through Profit or Loss

| | Group | |
|---|---------------|----------|
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Non-current | | |
| Unlisted investment at fair value | — | 38,215 |
| Current | | |
| Unlisted investment funds in Hong Kong, | | |
| — at fair value | — | 10,379 |
| — at cost | — | 6,000 |
| Unlisted investments at fair value | 38,885 | 93,587 |
| | 38,885 | 109,966 |

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

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

The principal of the above unlisted investments, representing cost of investments, amounting to approximately HK\$39 million (2008: HK\$148 million) was guaranteed by the issuers of the respective investments.

At 31 December 2008, the Group's unlisted investments with a total carrying amount of HK\$47,684,000 were pledged to secure banking facilities granted to the Group which were released during the year (note 28).

Notes to Financial Statements

31 December 2009

22. Inventories

| | Group | |
|--|----------|----------|
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Food and beverages, and other operating items for restaurant and bakery operations | 42,178 | 64,365 |

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 | |
|-------------------------------|----------|----------|
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Neither past due nor impaired | 12,000 | 9,996 |
| Less than 1 month past due | 2,069 | 1,826 |
| 1 to 3 months past due | 129 | 162 |
| Over 3 months past due | 75 | 88 |
| | 14,273 | 12,072 |

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.

At 31 December 2008, included in the Group's trade receivables was an amount due from an associate of HK\$1,110,000, which was repaid during the year.

Notes to Financial Statements (continued)

31 December 2009

24. Prepayments, Deposits and Other Receivables

| | Group | | Company | |
|---------------------------------------|------------------|------------------|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 | 2009 HK\$'000 | 2008 HK\$'000 |
| Prepayments | 23,424 | 31,194 | 406 | 572 |
| Prepaid land lease payments (note 15) | 1,453 | 1,047 | — | — |
| Deposits and other receivables | 30,181 | 22,277 | — | — |
| | 55,058 | 54,518 | 406 | 572 |

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 | |
|--|------------------|------------------|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 | 2009 HK\$'000 | 2008 HK\$'000 |
| Cash and bank balances | 333,638 | 202,566 | 15,034 | 44 |
| Time deposits | 130,653 | 97,734 | — | — |
| | 464,291 | 300,300 | 15,034 | 44 |
| Less: | | | | |
| Pledged deposits with original maturity over 3 months but within 1 year for short term bank borrowings | (36,756) | (5,520) | — | — |
| Pledged deposits for a long term bank borrowing | — | (15,648) | — | — |
| | 427,535 | 279,132 | 15,034 | 44 |

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$119,132,000 (2008: HK\$41,595,000). 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.

Notes to Financial Statements (continued)

31 December 2009

26. 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 | |
|----------------|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 |
| Within 1 month | 85,017 | 78,311 |
| 1 to 2 months | 4,207 | 1,530 |
| 2 to 3 months | 1,302 | 361 |
| Over 3 months | 3,259 | 5,846 |
| | 93,785 | 86,048 |

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

27. Other Payables and Accruals

| | Group | | Company | |
|----------------|------------------|------------------|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 | 2009 HK\$'000 | 2008 HK\$'000 |
| Other payables | 44,126 | 50,395 | 5 | — |
| Accruals | 121,879 | 117,058 | 561 | 592 |
| | 166,005 | 167,453 | 566 | 592 |

Other payables are non-interest-bearing.

Notes to Financial Statements (continued)

31 December 2009

28. Interest-Bearing Bank Borrowings

| Group | 2009 | | | 2008 | | |
|--|-----------------------------|-----------|---------------|-----------------------------|-----------|---------------|
| | Effective interest rate (%) | Maturity | HK\$'000 | Effective interest rate (%) | Maturity | HK\$'000 |
| Current | | | | | | |
| — Bank loans, secured | 2.94 | 2010 | 16,926 | 4.25 | 2009 | 19,591 |
| Non-current | | | | | | |
| — Bank loans, secured | 2.94 | 2011-2020 | 11,273 | 4.25 | 2010-2020 | 28,025 |
| | | | 28,199 | | | 47,616 |
| Analysed into: | | | | | | |
| Bank loans repayable: | | | | | | |
| Within one year | | | 16,926 | | | 19,591 |
| In the second year | | | 9,404 | | | 16,970 |
| In the third to fifth years, inclusive | | | 1,507 | | | 10,630 |
| Beyond five years | | | 362 | | | 425 |
| | | | 28,199 | | | 47,616 |

Notes:

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

- (i) mortgages over certain of the Group's leasehold land and buildings situated in Hong Kong;
- (ii) mortgages over certain of the Group's investment properties;
- (iii) the pledge of certain of the Group's time deposits; and
- (iv) the pledge of certain of the Group's unlisted investments.

Notes to Financial Statements (continued)

31 December 2009

29. 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 2009, 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 | |
|---|------------------------|----------|---|----------|
| | 2009 | 2008 | 2009 | 2008 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Amounts payable: | | | | |
| Within one year | 107 | 243 | 94 | 221 |
| In the second year | 26 | 107 | 23 | 94 |
| In the third to fifth years, inclusive | — | 26 | — | 23 |
| Total minimum finance lease payments | 133 | 376 | 117 | 338 |
| Future finance charges | (16) | (38) | | |
| Total net finance lease payables | 117 | 338 | | |
| Portion classified as current liabilities | (94) | (221) | | |
| Non-current portion | 23 | 117 | | |

The above finance leases are denominated in Hong Kong dollars and bear interest at rates ranging from 4.6% to 5.4% (2008: 3.9% to 5.4%) per annum.

30. Due to a Related Company/A Minority Shareholder of Subsidiaries

The amount due to a related company was unsecured, interest-free and fully settled during the year.

Mr. Chung Wai Ping, a director of the Company, is also the director and shareholder of the related company.

The amounts due to a minority shareholder of subsidiaries are unsecured and have no fixed terms of repayment. Except for a loan of HK\$1,198,000 (2008: HK\$1,198,000) advanced from a minority shareholder of a subsidiary, which bears interest at the Hong Kong dollar prime rate quoted by The Hongkong and Shanghai Banking Corporation Limited, 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 minority shareholder of subsidiaries.

Notes to Financial Statements (continued)

31 December 2009

31. Share Capital

| | Company | |
|---|------------------|-----------|
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Authorised: | | |
| 23,400,000,000 (2008: 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 (2008: 1,014,371,000) ordinary shares of HK\$0.10 each | 101,614 | 101,437 |

A summary of the transactions during the years ended 31 December 2008 and 2009 in the Company's issued share capital is as follows:

| | Notes | Number of ordinary shares | Issued capital HK\$'000 | Share premium account HK\$'000 | Total HK\$'000 |
|---|-------|---------------------------------|----------------------------|---|-------------------|
| At 1 January 2008 | | 1,014,460,000 | 101,446 | 310,550 | 411,996 |
| Repurchase of shares | (a) | (89,000) | (9) | (98) | (107) |
| At 31 December 2008 and 1 January 2009 | | 1,014,371,000 | 101,437 | 310,452 | 411,889 |
| Share options exercised | (b) | 1,770,000 | 177 | 6,074 | 6,251 |
| At 31 December 2009 | | 1,016,141,000 | 101,614 | 316,526 | 418,140 |

Notes:

- (a) During the year ended 31 December 2008, the Company repurchased its own ordinary shares on the Stock Exchange. All ordinary shares repurchased during that year were cancelled, and the issued share capital of the Company was reduced by the par value of the repurchased ordinary shares so cancelled. The premium paid for the repurchase of the ordinary shares, of HK\$98,000, were charged to the share premium account. An amount equivalent to the par value of the ordinary shares cancelled was transferred to the capital redemption reserve as set out in the consolidated statement of changes in equity.

Notes to Financial Statements (continued)

31 December 2009

31. Share Capital (continued)

Notes: (continued)

(a) (continued)

Details of the repurchases are summarised as follows:

| Month of repurchase | Number of ordinary shares of HK\$0.10 each repurchased | Price per ordinary share of HK\$0.10 | | Aggregate purchase price HK\$'000 |
|---------------------|---|--------------------------------------|----------------|---|
| | | Highest HK\$ | Lowest HK\$ | |
| November 2008 | 88,000 | 1.25 | 1.16 | 106 |
| December 2008 | 1,000 | 1.24 | 1.24 | 1 |
| | 89,000 | | | 107 |

(b) The subscription rights attaching to 1,770,000 share options were exercised at a subscription price of HK\$1.59 per share (note 32), 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.

32. 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.

Notes to Financial Statements (continued)

31 December 2009

32. Share Option Schemes (continued)

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 grant or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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

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

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

The exercise price of 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.

Notes to Financial Statements (continued)

31 December 2009

32. Share Option Schemes (continued)

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

| | 2009 | | 2008 | |
|---------------------------|---|---------------------------|---|---------------------------|
| | 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 | 13,110 | 1.59 | 15,150 |
| Exercised during the year | 1.59 | (1,770) | — | — |
| Cancelled during the year | 1.59 | (250) | 1.59 | (2,040) |
| At 31 December | | 11,090 | 1.59 | 13,110 |

The weighted average share price at the date of exercise for share options exercised during the year was HK\$2.30 (2008: Nil).

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 |
|------|---------------------------|----------------------------------|------------------------------|
| 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\$6,332,000 (2008: HK\$8,189,000) 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 2009 and the date of approval of these financial statements, the Company had 11,090,000 (2008: 13,110,000) share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 1.09% of the Company's shares in issue as at those dates. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 11,090,000 (2008: 13,110,000) additional ordinary shares of the Company and additional share capital of HK\$1,109,000 (2008: HK\$1,311,000) and share premium of HK\$16,524,000 (2008: 19,534,000) (before share issue expenses).

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

Notes to Financial Statements (continued)

31 December 2009

33. 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 page 42 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 minority shareholders and the nominal value of the shares of a former holding company and an existing subsidiary of the Group issued in exchange therefor prior to the listing of the Company's shares.

(b) Company

| | Notes | Share premium account HK\$'000 | Share option reserve HK\$'000 | Capital redemption reserve HK\$'000 | Other reserve HK\$'000 (note(i)) | Retained profits HK\$'000 | Total HK\$'000 |
|--|-------|-----------------------------------|----------------------------------|--|--|------------------------------|-------------------|
| At 1 January 2008 | | 310,550 | 5,655 | — | 427,527 | 221 | 743,953 |
| Profit and total comprehensive income for the year | | — | — | — | — | 122,006 | 122,006 |
| Repurchase of shares | 31(a) | (98) | — | 9 | — | (9) | (98) |
| Equity-settled share option arrangements | | — | 8,189 | — | — | — | 8,189 |
| Interim 2008 dividend | 12 | — | — | — | — | (60,868) | (60,868) |
| Proposed final 2008 dividend | 12 | — | — | — | — | (45,646) | (45,646) |
| Proposed special 2008 dividend | 12 | — | — | — | — | (15,216) | (15,216) |
| At 31 December 2008 and 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 | 31(b) | 6,074 | (3,437) | — | — | — | 2,637 |
| Equity-settled share option arrangements | | — | 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 | | 316,526 | 16,739 | 9 | 427,527 | 3,939 | 764,740 |

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.

Notes to Financial Statements (continued)

31 December 2009

34. Business Combinations

On 30 March 2009, the Group acquired an additional 60% equity interest in Tai Cheong Holdings Group Limited 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) |
| Minority 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, the revenue of the Group and the profit of the Group for the year would have been HK\$2,621,387,000 and HK\$211,074,000, respectively.

Notes to Financial Statements (continued)

31 December 2009

35. 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 current year, the Group has accrued and capitalised the estimated restoration cost of HK\$1,551,000 (2008: HK\$3,217,000) for such obligation.

In addition, during the year ended 31 December 2008, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK\$206,000.

36. Contingent Liabilities

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

| | Group | | Company | |
|---|----------|----------|----------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Bank guarantees given in lieu of utility and property rental deposits | 27,978 | 33,968 | — | — |
| Guarantees given to banks in connection with facilities granted to subsidiaries | — | — | 236,100 | 236,100 |

As at 31 December 2009, 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\$28,199,000 (2008:HK\$47,616,000).

37. 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 2009, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | 2009 | 2008 |
|-----------------|----------|----------|
| | HK\$'000 | HK\$'000 |
| Within one year | 6 | 6 |

Notes to Financial Statements (continued)

31 December 2009

37. 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 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2009 HK\$'000 | 2008 HK\$'000 |
|---|------------------|------------------|
| Within one year | 195,219 | 163,911 |
| In the second to fifth years, inclusive | 300,364 | 291,071 |
| Beyond five years | 71,505 | 70,175 |
| | 567,088 | 525,157 |

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.

38. Commitments

In addition to the operating lease commitments detailed in note 37(b) above, the Group had the following capital commitments at the end of the reporting period:

| | 2009 HK\$'000 | 2008 HK\$'000 |
|-----------------------------------|------------------|------------------|
| Contracted, but not provided for: | | |
| Buildings | 80,634 | 14,711 |
| Leasehold improvements | — | 3,084 |
| Machinery and equipment | — | 322 |

Notes to Financial Statements (continued)

31 December 2009

39. 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 | 2009 HK\$'000 | 2008 HK\$'000 |
|---|-------|------------------|------------------|
| Sales of food and other operating items to an associate | (i) | 1,976 | 1,350 |
| 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 (2008: 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 a 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 are 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\$18,600,000 (2008: HK\$13,442,000).

Notes to Financial Statements (continued)

31 December 2009

40. 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

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 minority shareholder of subsidiaries | 2,321 |
| | 277,479 |

Notes to Financial Statements (continued)

31 December 2009

40. Financial Instruments by Category (continued)

Group

2008

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) | — | 2,000 | 2,000 |
| Rental deposits | — | 51,981 | 51,981 |
| Financial assets at fair value through profit or loss | 148,181 | — | 148,181 |
| Trade receivables | — | 12,072 | 12,072 |
| Financial assets included in prepayments, deposits and other receivables (note 24) | — | 22,277 | 22,277 |
| Pledged deposits | — | 21,168 | 21,168 |
| Cash and cash equivalents | — | 279,132 | 279,132 |
| | 148,181 | 388,630 | 536,811 |

Financial liabilities

| | Financial liabilities at amortised cost HK\$'000 |
|---|---|
| Trade payables | 86,048 |
| Financial liabilities included in other payables and accruals | 154,592 |
| Interest-bearing bank borrowings | 47,616 |
| Finance lease payables | 338 |
| Due to a related company | 628 |
| Due to a minority shareholder of subsidiaries | 1,258 |
| | 290,480 |

Notes to Financial Statements (continued)

31 December 2009

40. Financial Instruments by Category (continued)

Company

Financial assets

| | 2009 Loans and receivables HK\$'000 | 2008 Loans and receivables HK\$'000 |
|---------------------------|--|--|
| Due from a subsidiary | 469,449 | 474,059 |
| Cash and cash equivalents | 15,034 | 44 |
| | 484,483 | 474,103 |

Financial liabilities

| | 2009 Financial liabilities at amortised cost HK\$'000 | 2008 Financial liabilities at amortised cost HK\$'000 |
|-----------------------------|--|---|
| Other payables and accruals | 566 | 592 |

41. 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 all 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 2009:

| | Level 2 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.

42. Financial Risk Management Objectives and Policies

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

Interest rate risk

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

For Hong Kong dollar floating-rate borrowings, assuming that the amount of liability outstanding at the end of the reporting period was outstanding for the whole year with all other variables held constant, a 50 basis point increase/decrease in interest rates at 31 December 2009 and 2008 would have decreased/increased the Group's profit before tax by HK\$141,000 and HK\$238,000, 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.

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.

Notes to Financial Statements (continued)

31 December 2009

42. Financial Risk Management Objectives and Policies (continued)

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

| | 2009 | | | | |
|---|--|------------------------------|--------------------------|--------------------------|-------------------|
| | Repayable on demand/ no fixed terms of repayment HK\$'000 | Less than 1 | 1 to 5 years | Over 5 years | Total |
| | | year | HK\$'000 | HK\$'000 | |
| Trade payables | — | 93,785 | — | — | 93,785 |
| Other payables and accruals | — | 153,057 | — | — | 153,057 |
| Interest-bearing bank borrowings | — | 17,393 | 11,111 | 387 | 28,891 |
| Finance lease payables | — | 107 | 26 | — | 133 |
| Due to a minority shareholder of subsidiaries | 2,321 | — | — | — | 2,321 |
| | 2,321 | 264,342 | 11,137 | 387 | 278,187 |
| | 2008 | | | | |
| | Repayable on demand/no fixed terms of repayment HK\$'000 | Less than 1 year HK\$'000 | 1 to 5 years HK\$'000 | Over 5 years HK\$'000 | Total HK\$'000 |
| Trade payables | — | 86,048 | — | — | 86,048 |
| Other payables and accruals | — | 154,592 | — | — | 154,592 |
| Interest-bearing bank borrowings | — | 20,776 | 28,425 | 454 | 49,655 |
| Finance lease payables | — | 243 | 133 | — | 376 |
| Due to a related company | 628 | — | — | — | 628 |
| Due to a minority shareholder of subsidiaries | 1,258 | — | — | — | 1,258 |
| | 1,886 | 261,659 | 28,558 | 454 | 292,557 |

Notes to Financial Statements (continued)

31 December 2009

42. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

Company

| | Less than 1 year | |
|-----------------------------|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 |
| Other payables and accruals | 566 | 592 |

As at 31 December 2009, 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\$28,199,000 (2008: HK\$47,616,000).

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 2009 and 31 December 2008.

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

Group

| | 2009 HK\$'000 | 2008 HK\$'000 |
|---|------------------|------------------|
| Total borrowings | 28,316 | 47,954 |
| Total equity attributable to owners of the parent | 1,126,450 | 1,029,807 |
| Gearing ratio | 2.5% | 4.7% |

Notes to Financial Statements *(continued)*

31 December 2009

43. Event after the Reporting Period

On 10 December 2009, the Group entered into a provisional sale and purchase agreement with an independent third party to acquire a lease of the property which comprises two blocks of buildings located at Tai Po Industrial Estate for an aggregate consideration of approximately HK\$88 million which, including a cash consideration of approximately HK\$74 million payable to the independent third party and administrative fees of approximately HK\$14 million payable to Hong Kong Science and Technology Parks Corporation. The transaction was completed on 25 March 2010.

44. Comparative Amounts

In addition to the reclassification stated on the face of the consolidated income statement, 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.

45. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 30 March 2010.

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

The summary of the consolidated results of the Group for the years ended 31 December 2005 and 2006 and of the assets, liabilities and minority interests as at 31 December 2005 and 2006 have been 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 2009, 2008 and 2007 and the consolidated assets, liabilities and minority interests of the Group as at 31 December 2009, 2008 and 2007 are those set out in the audited financial statements and restated/reclassified as appropriate.

In the prior years, the Group presented its income statement by the nature of expense. During the current year, the directors considered it more appropriate to present the income statement by the function of expense to be in line with the general accounting practice in the restaurant and food catering industries. Accordingly, the comparative amounts have been reclassified to conform with the current year's presentation.

| | Year ended 31 December | | | | |
|--|------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 (Restated) | 2007 HK\$'000 (Restated) | 2006 HK\$'000 (Restated) | 2005 HK\$'000 (Restated) |
| RESULTS | | | | | |
| REVENUE | 2,610,410 | 2,444,316 | 2,085,134 | 1,573,608 | 1,377,836 |
| Cost of sales | (2,208,749) | (2,076,033) | (1,789,746) | (1,325,045) | (1,191,975) |
| Gross profit | 401,661 | 368,283 | 295,388 | 248,563 | 185,861 |
| Other income and gains, net | 13,605 | 12,142 | 62,140 | 9,956 | 5,590 |
| Selling and distribution costs | (49,565) | (43,413) | (22,387) | (15,810) | (14,961) |
| Administrative expenses | (108,473) | (105,627) | (85,519) | (60,476) | (65,376) |
| Finance costs | (914) | (2,406) | (4,747) | (5,458) | (4,738) |
| Share of profits and losses of associates, net | 175 | 189 | 50 | (2) | 828 |
| PROFIT BEFORE TAX | 256,489 | 229,168 | 244,925 | 176,773 | 107,204 |
| Income tax expense | (46,136) | (37,308) | (42,350) | (31,034) | (19,799) |
| PROFIT FOR THE YEAR | 210,353 | 191,860 | 202,575 | 145,739 | 87,405 |
| Attributable to: | | | | | |
| Owners of the parent | 208,530 | 189,129 | 200,306 | 138,839 | 77,969 |
| Minority interests | 1,823 | 2,731 | 2,269 | 6,900 | 9,436 |
| | 210,353 | 191,860 | 202,575 | 145,739 | 87,405 |

Five-Year Financial Summary *(continued)*

ASSETS, LIABILITIES AND MINORITY INTERESTS

| | As at 31 December | | | | |
|--------------------|-------------------|------------------|------------------|------------------|------------------|
| | 2009 HK\$'000 | 2008 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| TOTAL ASSETS | 1,445,896 | 1,358,785 | 1,271,529 | 698,979 | 519,149 |
| TOTAL LIABILITIES | (317,775) | (326,667) | (339,902) | (334,309) | (386,211) |
| MINORITY INTERESTS | (1,671) | (2,311) | (2,099) | (770) | (17,894) |
| | 1,126,450 | 1,029,807 | 929,528 | 363,900 | 115,044 |