TAO HEUNG HOLDINGS LIMITED
稻香控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock code: 573)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

HIGHLIGHTS

	For the year ended 31 December		% Change
	2010	2009	**Increase/ (Decrease)**
	(HK$'000)	*(HK$'000)*	
Revenue	**2,937,226**	2,610,410	12.5%
EBITDA	**453,843**	420,235	8.0%
Profit attributable to owners of the parent	**219,386**	208,530	5.2%
	HK cents	HK cents	
Basic earnings per share	**21.59**	20.54	5.1%
Proposed final dividend per share	**6.3**	6.3	–
No. of restaurants (at 31 December)	**79**	74	

* *For identification purpose only*

CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Tao Heung Holdings Limited (the "**Company**" together with its subsidiaries, "**Tao Heung**" or the "**Group**"), I am pleased to present the annual results of the Group for the year ended 31 December 2010.

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

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

Progress in Hong Kong amidst challenging times

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

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

Business in Mainland China strengthened by rising prosperity

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

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

Outlook

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

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

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

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

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

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

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

Awards and Recognition

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

Appreciation

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

Chung Wai Ping
Chairman

Hong Kong
24 March 2011

MANAGEMENT DISCUSSIONS AND ANALYSIS

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

Financial Results

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

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

Hong Kong Operations

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

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

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

Mainland China Operations

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

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

Logistics Centres

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

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

Peripheral Business

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

Financial Resources and Liquidity

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

As at 31 December 2010, the Group had cash and cash equivalents of approximately HK$382.7 million. After deducting total interest-bearing bank borrowings of approximately HK$11.3 million, the Group had a net cash surplus position of approximately HK$371.4 million. In view of its cash-rich position, the Group continues to explore potential investments or business development opportunities to deploy its cash resources with an aim to enhance the Group's profitability and values to its shareholders.

As at 31 December 2010, the Group's gearing ratio (defined as total interest-bearing bank borrowings plus finance lease payable divided by total shareholders' equity) was reduced to 0.9% (2009: 2.5%).

Capital Expenditure

Capital expenditure for the year ended 31 December 2010 amounted to approximately HK$371.5 million and capital commitments as at 31 December 2010 amounted to approximately HK$40.0 million. The capital expenditure were mainly for the renovation of the Group's new and existing restaurants and Tai Po Logistics Centre while the capital commitments relate to the acquisition of the poultry business.

Contingent Liabilities

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

Foreign Exchange Risk Management

The Group's sales and purchases for the year ended 31 December 2010 were mostly denominated in Hong Kong Dollars ("**HK$**") and Renminbi ("**RMB**").

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

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

Human Resources

As at 31 December 2010, the Group had 7,770 employees. In order to attract and retain high quality staff and to enable smooth operation within the Group, the Group offers competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis.

In addition, the Group also adopted the Pre-IPO Share Option Scheme and Share Option Scheme, where eligible employees are entitled to various share options to subscribe for the ordinary shares in the Company for their past and potential contribution to the growth of the Group. As at 31 December 2010, approximately 10,500,000 options were outstanding under the Pre-IPO Share Option Scheme and no share options have been exercised during the year. Also, as at 31 December 2010, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

Pledge of Assets

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

Prospects

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

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

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

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

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

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

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

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

RESULTS

The Board is pleased to announce the consolidated results of the Group for the year ended 31 December 2010, together with the comparative figures for the year ended 31 December 2009 as follows:

Consolidated Income Statement
For the year ended 31 December 2010

	Notes	**2010** *HK$'000*	2009 *HK$'000*
REVENUE	*5*	**2,937,226**	2,610,410
Cost of sales		**(2,491,576)**	(2,208,749)
Gross profit		**445,650**	401,661
Other income and gains, net	*5*	**18,602**	13,605
Selling and distribution costs		**(67,557)**	(49,565)
Administrative expenses		**(118,871)**	(108,473)
Finance costs	*6*	**(495)**	(914)
Share of profits and losses of associates, net		**–**	175
PROFIT BEFORE TAX	*7*	**277,329**	256,489
Income tax expense	*8*	**(55,590)**	(46,136)
PROFIT FOR THE YEAR		**221,739**	210,353
Attributable to:			
Owners of the parent		**219,386**	208,530
Non-controlling interests		**2,353**	1,823
		221,739	210,353
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic (HK cents)	*10*	**21.59**	20.54
– Diluted (HK cents)	*10*	**21.49**	20.52

Details of the dividends payable and proposed for the year are disclosed in note 9 to the financial statements.

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2010

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

Consolidated Statement of Financial Position
As at 31 December 2010

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

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

Notes:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain financial assets at fair value through profit or loss, which have been measured at fair value. The asset held for sale is stated at the lower of its carrying amount and fair value less costs to sell. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

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

Other than as further explained below regarding the impact of amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009*, HK Interpretation 4 (revised in December 2009) and HK Interpretation 5, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

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

(a) *Improvements to HKFRSs 2009*

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

(i) HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

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

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

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

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

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

Due to the retrospective application of the amendments which has resulted in the restatement of items in the statement of financial position, a statement of financial position as at 1 January 2009, and the related notes affected by the amendments have been presented in these financial statements.

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

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

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

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

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

3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[4]
HKFRS 9	*Financial Instruments*[6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[5]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

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

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

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

4. OPERATING SEGMENT INFORMATION

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

Geographical information

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

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue (which is also the Group's turnover), other income and gains, net are analysed as follows:

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

6. FINANCE COSTS

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

7. PROFIT BEFORE TAX

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

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

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

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2010	2009
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**36,258**	44,672
Overprovision in prior years	**(19)**	(187)
Current – Mainland China	**16,474**	15,627
Deferred	**2,877**	(13,976)
Total tax charge for the year	**55,590**	46,136

9. DIVIDENDS

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

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

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share for the year is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of 1,016,141,000 (2009: 1,015,033,541) ordinary shares of the Company in issue during the year.

The calculation of the diluted earnings per share for the year ended 31 December 2010 is based on the profit attributable to equity holders of the parent and on 1,016,141,000 (2009: 1,015,033,541) ordinary shares, as used in the calculation of basic earnings per share and the weighted average of 4,525,364 (2009: 1,072,295) ordinary shares assumed to have been issued at no consideration on the deemed exercise of shares under the Pre-IPO Share Option Scheme.

11. GOODWILL

	2010	2009
	HK$'000	*HK$'000*
Carrying amount at 1 January	**22,020**	16,827
Reclassified from interest in associates	**–**	1,407
Acquisition of subsidiaries	**–**	3,786
Carrying amount at 31 December	**22,020**	22,020

Goodwill is tested for impairment annually or whenever there is any indication of impairment. At 31 December 2010, there was no indication of impairment.

12. 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:

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

13. 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:

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

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

14. BUSINESS COMBINATIONS

On 30 March 2009, the Group acquired an additional 60% equity interest in Tai Cheong Holdings Group Limited ("**Tai Cheong**") and its subsidiaries (the "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	4,540
Inventories	472
Trade receivables	730
Prepayments, deposits and other receivables	3,540
Cash and bank balances	7,292
Trade payables	(1,640)
Other payables and accruals	(2,992)
Due to a related company	(2,000)
Tax payable	(54)
Non-controlling interests	(777)
Net assets acquired at fair values	9,111
Interests in an associate	(777)
Goodwill on acquisition *(note 11)*	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)

15. EVENTS AFTER THE REPORTING PERIOD

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

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

OTHER INFORMATION

Dividend

In acknowledging continuous support from the Company's shareholders, the Directors have declared the payment of a final dividend of HK6.30 cents per ordinary share in respect of the year ended 31 December 2010, payable on 31 May 2011 to shareholders whose names appear on the register of member of the Company on 20 May 2011.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 23 May 2011 to Thursday, 26 May 2011, both days inclusive, during which period no transfer of shares will be effective. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 20 May 2011.

Corporate Governance

During the year ended 31 December 2010, the Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Model Code of Securities Transactions by Directors

The Company has adopted the model code as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealings in securities of the Company by the directors (the "**Code**"). The Company, having made specific enquiry of all Directors, confirms that its Directors had compiled with the required standard set out in the Code throughout the year ended 31 December 2010.

Purchase, Sale or Redemption of Listed Securities

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

Audit Committee

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 issue 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.

The Company's annual results for the year ended 31 December 2010 have been reviewed by the Audit Committee, which opines that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made.

Annual General Meeting

The 2010 Annual General Meeting of the Company will be held on Thursday, 26 May 2011. Notice of the 2010 Annual General Meeting will be published and issued to shareholders in due course.

Disclosure of information on the Stock Exchange's website

The electronic version of this announcement will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.taoheung.com.hk).

By order of the Board
Chung Wai Ping
Chairman

Hong Kong, 24 March 2011

As at the date of this announcement, the board of directors of the Company comprised 12 directors, of which six are executive directors, namely Mr. Chung Wai Ping, Mr. Wong Ka Wing, Mr. Chung Ming Fat, Mr. Leung Yiu Chun, Ms. Wong Fun Ching and Mr. Ho Yuen Wah; two are non-executive directors, namely Mr. Fong Siu Kwong and Mr. Chan Yue Kwong, Michael and four are independent non-executive directors namely Mr. Li Tze Leung, Professor Chan Chi Fai, Andrew, Mr. Mak Hing Keung, Thomas and Mr. Ng Yat Cheung.