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 2011

HIGHLIGHTS

	For the year ended 31 December		% Change
	2011	2010	**Increase/ (Decrease)**
	(HK$'000)	*(HK$'000)*	
Revenue	**3,576,099**	2,937,226	21.8%
Profit attributable to owners of the parent	**254,956**	219,386	16.2%
	HK cents	*HK cents*	
Basic earnings per share	**25.08**	21.59	16.2%
Proposed final dividend per share	**6.6**	6.3	4.8%
No. of restaurants (at 31 December)	**86**	79	
No. of restaurants (at announcement date)	**87**	80	

* *For identification purposes 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 2011.

Escalating costs combined with inflationary pressure made for a highly challenging year for the Group. Undaunted, the management astutely leveraged strong consumption sentiment in China via an enhanced restaurant network to sustain growth and improve profitability. To specifically tackle the rising costs, we capitalised on our logistics centres, poultry farm and enhanced automated processes, as well as the adoption of still stricter cost control measures to mitigate their impact. Through shrewd negotiations, rent was also well managed during the reporting year. Consequently, the Group recorded satisfactory double-digit revenue and profit growth. Leveraging a solid foundation in Hong Kong, we will increase our pace of expansion in China to realise further progress.

In the light of the Group's healthy financial position, as well as our commitment to delivering fair returns to shareholders, the Board has recommended a final dividend of HK6.6 cents per share. Together with an interim dividend of HK6.2 cents per share already paid, total dividend per share will amount to HK12.8 cents for the financial year, representing a payout ratio of 51.0%.

Steady growth amid challenging times in Hong Kong

The Hong Kong business continued to make steady advances during the year. With 2011 marking the 20th anniversary of Tao Heung, we took the opportunity to celebrate and capitalise on the occasion by launching special promotions that successfully retained customer traffic and enhanced awareness of brands under the Group. What is more, the shop expansion plan in Hong Kong proceeded well with an additional seven outlets contributing to top-line growth. Such contributions were instrumental in driving revenue upwards by 13.2% for the review year.

2011 was a testing year for most food caterers in Hong Kong, and Tao Heung was no exception. We saw a substantial rise in food cost and various operating expenses resulting from inflation; and more importantly, increased labour cost due to the implementation of statutory minimum wage in May 2011. Despite such pressure points, our efforts at improving efficiency and controlling costs through associated control measures including automated processes re-engineering, proved effective, enabling the profit level to be at a similar level with the last reporting year.

Establishing a road map to sustained profitability in Mainland China

The economy and operating environment in Mainland China remained robust despite a depressed global economy resulting from the Euro Debt Crisis towards the end of 2011. As such, we stepped up our restaurant expansion efforts in the country with the aim of laying down a solid foundation for capturing further business growth in the future as well as capitalise on the benefits associated with our maturing Dongguan Logistics Centre. With new shops strategically established in prime locations, including Huizhou and Shenzhen, revenue from the Mainland China business continued to climb as an increasingly affluent public warmly received the Tao Heung brand. Revenue rose by 59.2% year-on-year, which also substantiated the Group's strategy of focusing on the expanding wedding and banquet markets. In addition, profit increased significantly as a result of higher revenue, enhanced efficiency and greater food supply from the Dongguan logistics centre and poultry farm. Both the logistics centre and poultry farm must also be credited with ensuring the Group delivered the highest quality food, which is paramount in the face of consumers' growing concern for food safety – a concern that has also led to the public choosing Tao Heung.

Outlook – Committed to Building a New Decade of Growth

Following two decades of successes, we are even more motivated and determined to fuel growth as we commence writing a new chapter in our history. Consistent with this determination, we realise that ongoing vertical and horizontal integration will be pivotal as they represent the foundation on which growth is achieved.

In respect of vertical integration, we will actively look for potential opportunities to strengthen our food supply chain, which delivers the dual benefits of promoting greater cost efficiency and quality control. The Group's acquisition of a poultry farm in early 2011, which also enabled it to derive additional revenue, certainly substantiates the reasoning behind this strategy. Furthermore, such effort will help pave the way for realising our geographical expansion goals as they evolve in the coming years.

With regards to horizontal integration, we will certainly look to expand our network of restaurants. Having already made our mark in Chinese cuisine over the years, we will study the possibility of launching new cuisine. Likewise, we will look past existing geographical boundaries, moving beyond Hong Kong and Guangdong – our well-established strongholds – to new markets such as Guangxi, Shanghai, Wuhan and Shenyang, going so far as more northern and eastern regions of the country. Seven to eight new outlets are scheduled to open in 2012. By adopting a holistic approach of penetrating new markets as well as continuing deployment of our proven multi-branding strategy, we are optimistic that our horizontal integration efforts will be implemented efficiently and effectively.

Serving as an important junction that links our vertical and horizontal integration efforts will be our logistics centres. Both the Dongguan and Tai Po facilities have proven invaluable for enabling us to contain escalating costs, satisfy ever increasing food processing needs and bolster overall efficiency. As demand dictates following our horizontal integration, we will undoubtedly consider establishing additional logistic centres to complement our development goals.

The coming five years will represent the second phase of Tao Heung's master development plan since its listing. Through our vertical and horizontal integration efforts, we will have the necessary groundwork for realising our goal of creating a nationwide catering network. By 2017, this will include the operation of 200 outlets that offer different kinds of Chinese cuisine and baked goods, thus facilitating our long-term development and further rise in prominence.

Appreciation

On behalf of the Board, I would like to offer my sincere gratitude to the management and staff for their diligence and dedication throughout the year. Appreciation must certainly be extended to our customers, business partners and shareholders for their unwavering support.

Chung Wai Ping
Chairman

Hong Kong
22 March 2012

MANAGEMENT DISCUSSIONS AND ANALYSIS

Review

The Board is pleased to announce the Group's annual results for the year ended 31 December 2011. During the review year, the Group continued to face stern challenges characterised by rising costs in food, labour and rent. To mitigate their impact, the management implemented stringent cost control measures that bolstered efficiency leading to sustained profitability. Moreover, the introduction of promotional campaigns to celebrate Tao Heung's 20th anniversary not only helped raise public awareness of brands under the Group, but also maintained customer traffic, leading to further business gains. In Mainland China, conditions were more encouraging with consumption sentiment steadily improving, allowing Tao Heung to grow in a stable manner and realise double-digit turnover growth.

In the past year, the management has sought to continue building a fully integrated business. The operation of a poultry farm, running of two logistics centres in Tai Po and Dongguan and ongoing expansion of restaurant and bakery networks in Hong Kong and Mainland China are indicative of this effort. By adopting this holistic approach, the Group is now set to extend its reach to the northern and eastern reaches of Mainland China, which will be its main objective in the coming years.

Financial Results

The Group's total revenue increased by 21.8% to around HK$3,576.1 million (2010: HK$2,937.2 million). Factors that led to the increase included the opening of 10 new shops – seven in Hong Kong and three in Mainland China; strong business growth in China resulting from a booming economy and increased spending by consumers; and effective promotions in Hong Kong resulting in sustained customer traffic. Gross margin reached 15.6%. EBITDA increased by 16.3% to HK$527.8 million from HK$453.8 million in 2010. Profit attributable to owners of the parent was HK$255.0 million, up 16.2% from HK$219.4 million in 2010. To tackle rising labour, food costs and rent, stringent cost control measures were adopted such as greater bulk purchase of food ingredients, increased food supply from logistics centres, introduction of automated processes and the development of a vertically integrated supply chain that include the acquisition of a poultry farm in January 2011. These measures successfully kept the staff cost-to-revenue ratio and the rent-to-revenue ratio stable.

Hong Kong Operations

The Hong Kong market reported steady growth during the review year, with revenue of HK$2,710.2 million recorded, representing a year-on-year growth of 13.2%. Tao Heung expanded its restaurant network with seven new outlet openings. In total, 69 outlets are in operation as at 31 December 2011.

To welcome in the 20th anniversary of Tao Heung, some themed marketing campaigns were introduced which proved successful in maintaining customer traffic. Same store sales increased modestly by 2.5%.

Despite a surge in various costs, especially labour cost following the introduction of minimum wage in May 2011, the Group's profitability was not materially impacted as evidenced by the staff cost to turnover ratio remaining at the same level as 2010. With the written off of the remaining balance of property, plant and equipment of old Fotan Logistics Centre approximately HK$6.6 million, EBITDA increased only slightly to 341.3 million. Profit attributable to owners of the parent was increased to HK$179.2 million.

Profitability was maintained, in part, the result of leveraging the Dongguan and Tai Po logistics centres which supplied more food to Hong Kong restaurants, thus allowing for greater cost savings. Centralised food processing also helped contain costs by way of directly sourcing from local farms that offer lower prices. With greater food supply to the Group's restaurants, expenditure for food was therefore reduced. It is also worth noting that the poultry farm acquired by the Group has enabled it to establish a vertically integrated network and thereby benefit from greater cost savings. The aforesaid farm successfully boosted the Group's gross profit and is expected to continue playing a significant role in curbing expenses.

Performance of the Tai Cheong Bakery operation was stable with a total store count of 17 as at 31 December 2011. Wanting to further strengthen sales channels, the Group will continue exploring suitable locations to open new outlets. Ready to support such openings will be the bakery centre found in the Tai Po Logistics Centre. In operation since January 2011, the bakery centre can provide more food to Tai Cheong and thus enable it to expand its business as well as benefit from greater efficiency and lower costs.

Mainland China Operations

Another year of exceptional growth was achieved by the Mainland China operations. The Group recorded revenue of HK$865.9 million, up by 59.2% over the same period last year (2010: HK$543.8 million). Even excluding revenue generated from the poultry farm, revenue still climbed by a staggering 46.3%. Such an outstanding achievement was driven by growing public affluence, which has led to an increase frequenting of reputable high-end restaurants. The management's decision to focus on the fast growing wedding and banquet markets can also be attributed to such growth. Concern towards food safety is an additional factor that has attracted middle to high income customers to Tao Heung. Further aiding revenue growth was the addition of three outlets that were opened in Huizhou and Shenzhen during the year, thus raising the total number of restaurants to 17 as at 31 December 2011. Same store sales growth of 13.9% provided yet another reason for the impressive surge in revenue.

Along with a jump in income, EBITDA increased by 56.7% to HK$186.5 million, up from HK$119.0 million in 2010. Profit attributable to owners of the parent was climbed by 74.7% to HK$75.8 million. The rise in profitability can directly be attributed to the Dongguan Logistics Centre which was able to supply a greater volume of food, having benefited from enhanced efficiency. Consequently, this reduced the impact of escalating food cost on the Group. Certainly, the significant increase in revenue was also a contributing factor.

Logistics Centres

The logistics centre in Dongguan continued to supply an increasing amount of food to the Group's restaurants, with current output at approximately 840 tonnes per month. This prompted the Group to increase the bulk purchase of food raw materials from their sources, thus ensure greater control of food quality and higher efficiency. With the total breakeven point having already been met in 2010, the Dongguan Logistics Centre began delivering profits to the Group in the first half of 2011. As output from the Centre increases to a projected 1,000 tonnes per month in 2012, still greater profits can be expected, while also allowing Tao Heung to quicken its pace of expansion in Mainland China.

Having commenced operation in January 2011, the Tai Po Logistics Centre has been effectively generating synergies with its Dongguan counterpart, helping alleviate rising cost pressure. In the process of providing effective food supply for pre-packaged and festive products including dim sum and mooncakes, the Tai Po facility reached an average output of approximately 930 tonnes per month, and is targeted to reach 1,000 tonnes per month in 2012. Along with helping lessen cost pressure, the Centre enables the Group to explore more peripheral business opportunities, thus paving the way for future growth.

Peripheral Business

The peripheral business realised stable growth with revenue up 122.1% to approximately HK$198.8 million (2010: HK$89.5 million). With the acquisition of a poultry farm in January 2011, this newest asset has helped expedite the Group's vertical integration efforts, and create new income source to the group. In the past year, the farm delivered a stable and safe supply of high quality ingredients in the form of pork and poultry. At the same time, the farm contributed revenue totalling HK$70.2 million, thus an income source in its own right.

Particularly strong sales growth was achieved by the festive food business, with the "made in Hong Kong" mooncakes and pun choi being clear standouts. These high-quality items were produced via the centralised food processing centre in Tai Po. While airline catering, pre-packaged and chilled food have consistently generated steady revenue for the Group, the management will nevertheless continue exploring more avenues for distributing such food items.

Financial Resources and Liquidity

The Group maintained a strong financial and liquidity position during the year under review. As at 31 December 2011, the Group's total assets increased to approximately HK$1,950.9 million (2010: approximately HK$1,626.5 million) while the total equity increased to approximately HK$1,395.7 million (2010: approximately HK$1,231.2 million).

As at 31 December 2011, the Group had cash and cash equivalents of approximately HK$311.4 million. After deducting total interest-bearing bank borrowings of approximately HK$21.9 million, the Group had a net cash surplus position of approximately HK$289.5 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 2011, the Group's gearing ratio (defined as total interest-bearing bank borrowings plus finance lease payable divided by total shareholders' equity) was 1.6% (2010: 0.9%).

Capital Expenditure

Capital expenditure for the year ended 31 December 2011 amounted to approximately HK$322.2 million and capital commitments as at 31 December 2011 amounted to approximately HK$76.4 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 mainly relate to the acquisition of the leasehold building.

Contingent Liabilities

As at 31 December 2011, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$26.2 million (2010: approximately HK$28.1 million).

Foreign Exchange Risk Management

The Group's sales and purchases for the year ended 31 December 2011 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 2011, the Group had 8,319 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 2011, approximately 9,198,000 options were outstanding under the Pre-IPO Share Option Scheme and 1,152,000 share options have been exercised during the year. Also, as at 31 December 2011, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

Pledge of Assets

As at 31 December 2011, the Group pledged its bank deposits of approximately HK$11.9 million, leasehold land and buildings of approximately HK$56.3 million and investment properties of approximately HK$7.3 million to secure the banking facilities granted to the Group.

Prospects

Heading into 2012, the management remains cautiously optimistic about the restaurant industry. Though rising labour cost, inflation-related cost pressures in both Hong Kong and China, and even the Euro Debt Crisis which can destabilise the local economies and affect consumption sentiment are concerns that cannot be ignored, the Group has proven time and again its ability to overcome all obstacles. As a leading Chinese restaurant group targeting to reach a combined total of 100 outlets in Hong Kong and Mainland China in 2012, Tao Heung has the experience, cost control mechanisms in place and the determination to sustain growth even in the face of market adversity.

Aiding the Group's business efforts are the Dongguan and Tai Po logistics centres. Now that the latter has been operational since January 2011, it will also play an effective role in reducing costs. Almost immediately, the Tai Po Logistics Centre has allowed the Group to consolidate its prominent position in the restaurant industry while at the same time enable the management to explore more opportunities in peripheral businesses. Also, the Group will be able to benefit from the facility's high-level of automation, translating into greater efficiency in terms of food supply, as well as further raise the bar for food safety.

A further ally in delivering quality food while curbing expenses is the poultry farm in China. With enhanced capacity, the farm not only occupies an essential position in its vertical integration hierarchy but is also a profit contributor. Looking ahead, the management will leverage the facility to explore other vertical integration opportunities, thus broaden its revenue sources still further. Since food chain integration is a trend that is only now sweeping the food and beverage industry, possession of the poultry farm has enabled the Group to be in an advantageous position to readily capitalise on further integration efforts.

On a more micro perspective, the Group will continue to adopt technologies that raise the efficiency of its restaurants. The use of automated queueing, automated ordering, self-service auto-payment and pre-paid cards are among the measures that will be taken to help optimise the workforce and reduce the impact of rising labour cost and labour shortages.

With increasing awareness of food safety brought upon the food incidents as DEHP plasticiser, among others, restaurant operators that place heavy emphasis on food quality are set to capitalise; hence, here too Tao Heung is ready to benefit. The Group will continue to place food hygiene and safety as among its top priorities, making best use of its laboratories in this regard. Such emphasis perfectly corresponds with the management overall objective of tapping the enormous Mainland China market which, with a booming economy, has created an increasingly large and discerning middle-class segment – the Group's target consumers.

Consistent with the Group's goal of expediting business expansion in the Mainland China market, the management aims to open seven to eight restaurants in 2012, thus bringing the total count to around 25. With Hong Kong serving as the foundation and expansion in Guangdong well underway, the Group will place greater focus on tapping markets outside the Guangdong region. Already, five premises have been confirmed with locations that include Zhongshan, Guangzhou as well as locations in Guangxi. Besides these locations, the management is already looking with expansion in these regions likely to proceed this year at eastern and northern parts of the country, including Shanghai, Wuhan and Shenyang. Ultimately, the Group's aim is to provide exceptional dining experiences to a wider Mainland Chinese audience. More resources will therefore be dedicated to promotion and market development. Though profitability will not be immediate, such ventures are deemed essential for realising Tao Heung's mid – to long-term goals.

The operating environment in Hong Kong is expected to remain difficult as inflation will continue to burden restaurant operators grappling to sustain profits. Despite a less positive outlook for the local market, the management will place every effort into maintaining customer traffic and preserving the average selling price of dishes as it seeks to perpetuate growth. In addition, the Group will prudently expand its presence with the opening of five to six new restaurants in 2012. Along with a bolstered presence, the management plans to introduce automated queueing, ordering and self-service auto-payment systems in all outlets as a means of tackling labour and operating costs. Take-away counters will also be opened in popular restaurants in order to expand sales channels for pre-packaged food. In the coming first-half year, the take-away counters will be shelved with products that feature brand new packaging theme.

In respect of the Tai Cheong Bakery business, the Group aims to roll out more exciting products such as Western and Japanese breads and baked goods, as well as tap the tourist market with newly developed modern packaging and graphics. With the Group's self-branded mooncakes having enjoyed a warm reception by the market, the Tai Po Logistics Centre will also play a key role in expanding production whereas private branded mooncakes will be produced by the Dongguan Logistics Centre. This strategy is expected to result in enhanced competiveness for the Group's mooncake products.

Capitalising on a number of strengths, including effective cost controls, vertically integrated supply chain, seasoned management team, consolidated restaurant network and sterling brand reputation in Hong Kong and Mainland China, the management is confident in the Group's ability to forge ahead and capture greater market share, even in the face of lingering challenges. The management will duly harness this momentum to extend Tao Heung's reach to other regions of Mainland China as part of its long-term development strategy.

RESULTS

The Board is pleased to announce the consolidated results of the Group for the year ended 31 December 2011, together with the comparative figures for the year ended 31 December 2010 as follows:

Consolidated Income Statement
For the year ended 31 December 2011

	Notes	**2011** *HK$'000*	2010 *HK$'000*
REVENUE	5	**3,576,099**	2,937,226
Cost of sales		**(3,016,631)**	(2,491,576)
Gross profit		**559,468**	445,650
Other income and gains, net	5	**33,395**	18,602
Selling and distribution costs		**(92,781)**	(67,557)
Administrative expenses		**(169,088)**	(117,957)
Other expenses		**(8,682)**	(914)
Finance costs	6	**(461)**	(495)
PROFIT BEFORE TAX	7	**321,851**	277,329
Income tax expense	8	**(63,094)**	(55,590)
PROFIT FOR THE YEAR		**258,757**	221,739
Attributable to:			
Owners of the parent		**254,956**	219,386
Non-controlling interests		**3,801**	2,353
		258,757	221,739
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic (HK cents)	10	**25.08**	21.59
– Diluted (HK cents)	10	**24.98**	21.49

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

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2011

	2011	2010
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**258,757**	221,739
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**21,191**	7,063
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**279,948**	228,802
Attributable to:		
Owners of the parent	**275,795**	226,449
Non-controlling interests	**4,153**	2,353
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**279,948**	228,802

Consolidated Statement of Financial Position
As at 31 December 2011

	Notes	**2011**	2010
		HK$'000	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,031,228**	854,017
Prepaid land lease payments		**19,354**	18,855
Investment properties		**8,540**	7,620
Goodwill	*11*	**38,239**	22,020
Investments in associates		**3,316**	3,316
Biological assets	*12*	**2,803**	–
Deferred tax assets		**62,934**	63,220
Rental deposits		**94,278**	75,750
Deposits for purchases of items of property, plant and equipment		**38,148**	12,362
Other deposit		**1,648**	4,442
Total non-current assets		**1,300,488**	1,061,602
CURRENT ASSETS			
Inventories		**134,833**	61,967
Biological assets	*12*	**9,269**	–
Trade receivables	*13*	**25,720**	13,528
Prepayments, deposits and other receivables		**82,306**	61,222
Tax recoverable		**3,823**	11,398
Pledged deposits		**11,914**	31,200
Restricted cash		**71,057**	–
Cash and cash equivalents		**311,445**	382,655
		650,367	561,970
Asset classified as held for sale		**–**	2,884
Total current assets		**650,367**	564,854
CURRENT LIABILITIES			
Trade payables	*14*	**179,271**	136,177
Other payables and accruals		**299,171**	215,919
Interest-bearing bank borrowings		**21,868**	11,273
Finance lease payables		**323**	200
Due to a non-controlling shareholder of subsidiaries		**60**	946
Tax payable		**26,764**	21,384
Total current liabilities		**527,457**	385,899
NET CURRENT ASSETS		**122,910**	178,955
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,423,398**	1,240,557

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT LIABILITIES			
Finance lease payables		**621**	197
Due to non-controlling shareholders of subsidiaries		**11,391**	–
Deferred tax liabilities		**15,654**	9,114
Total non-current liabilities		**27,666**	9,311
Net assets		**1,395,732**	1,231,246
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**101,729**	101,614
Reserves		**1,209,633**	1,062,717
Proposed dividend		**67,141**	64,017
		1,378,503	1,228,348
Non-controlling interests		**17,229**	2,898
Total equity		**1,395,732**	1,231,246

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 biological assets, which have been measured at fair value. The asset held for sale was stated at the lower of its carrying amount and fair value less costs to sell. These financial statements are presented in Hong Kong dollars.

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 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19 *Improvements to HKFRSs 2010*	*Extinguishing Financial Liabilities with Equity Instruments* Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendements to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, 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) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs.

There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

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

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 2011 and 2010, and certain non-current asset information as at 31 December 2011 and 2010, by geographic area.

(a) *Revenue from external customers*

	2011	2010
	HK$'000	*HK$'000*
Hong Kong	**2,710,238**	2,393,463
Mainland China	**865,861**	543,763
	3,576,099	2,937,226

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

(b) *Non-current assets*

	2011	2010
	HK$'000	*HK$'000*
Hong Kong	**541,220**	499,986
Mainland China	**600,408**	422,646
	1,141,628	922,632

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

5. REVENUE, OTHER INCOME AND GAINS, NET

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

	2011	2010
	HK$'000	*HK$'000*
Revenue		
Restaurant and bakery operations	**3,377,255**	2,847,734
Sale of food	**128,658**	89,492
Poultry farm operations	**70,186**	–
	3,576,099	2,937,226
Other income and gains, net		
Bank interest income	**3,808**	2,556
Fair value gains on investment properties	**920**	7,884
Government grants	**903**	–
Gross rental income from investment properties	**466**	1,172
Gross rental income from sublease of poultry market	**9,780**	–
Sponsorship income	**5,505**	5,025
Gain on disposal of items of property, plant and equipment, net	**8,450**	–
Others	**3,563**	1,965
	33,395	18,602

6. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable		
– Within five years	**444**	414
– Beyond five years	**14**	16
Interest on finance leases	**3**	13
Interest on an amount due to a non-controlling shareholder of subsidiaries	**–**	52
Total interest expense on financial liabilities not at fair value through profit or loss	**461**	495

7. PROFIT BEFORE TAX

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

	2011 *HK$'000*	2010 *HK$'000*
Cost of inventories sold	**1,207,231**	954,548
Depreciation*	**206,920**	175,671
Amortisation of land lease payments*	**363**	348
Gross rental income from investment properties	**(466)**	(1,172)
Less: Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	**–**	211
Net rental income	**(466)**	(961)
Employee benefits expense* (including directors' remuneration):		
Salaries and bonuses	**919,720**	769,808
Retirement benefit scheme contributions (defined contribution schemes)	**49,443**	37,633
Equity-settled share option expense	**1,019**	2,467
	970,182	809,908
Lease payments under operating leases in respect of land and buildings*:		
Minimum lease payments	**245,272**	207,241
Contingent rents	**14,338**	10,210
	259,610	217,451
Foreign exchange differences, net	**(4,271)**	(1,970)
Write-off of items of property, plant and equipment	**7,842**	914
Loss/(gain) on disposal of items of property, plant and equipment, net	**(8,450)**	525
Fair value loss on biological assets	**840**	–

* The cost of sales for the year amounting to HK$3,016,631,000 (2010: HK$2,491,576,000) included depreciation charges of HK$188,914,000 (2010: HK$168,391,000), amortisation of land lease payments of HK$363,000 (2010: HK$348,000), employee benefit expenses of HK$875,182,000 (2010: HK$744,498,000) and operating lease rentals of HK$251,539,000 (2010: HK$214,866,000).

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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.

	2011	2010
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**40,127**	36,258
Overprovision in prior years	**(36)**	(19)
Current – Mainland China	**18,741**	16,474
Deferred	**4,262**	2,877
Total tax charge for the year	**63,094**	55,590

9. DIVIDENDS

	2011	2010
	HK$'000	*HK$'000*
Additional 2010 final – HK6.30 cents	**49**	–
Interim – HK6.20 cents (2010: HK6.20 cents) per ordinary share	**63,067**	63,001
Proposed final – HK6.60cents (2010: HK6.30 cents) per ordinary share	**67,141**	64,017
	130,257	127,018

Actual 2010 final dividend paid was HK$64,066,000, of which HK$49,000 was paid for shares issued for employee share options exercised after 31 December 2010.

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 1,016,762,628 (2010: 1,016,141,000) ordinary shares of the Company in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2011 is based on the profit attributable to equity holders of the parent and on 1,016,762,628 (2010: 1,016,141,000) ordinary shares, as used in the calculation of basic earnings per share and the weighted average of 3,852,226 (2010: 4,525,364) 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

	2011	2010
	HK$'000	*HK$'000*
Cost at 1 January	**22,020**	22,020
Acquisition of subsidiaries *(note 15)*	**15,504**	–
Exchange realignment	**715**	–
Cost and net carrying amount at 31 December	**38,239**	22,020

Goodwill is tested for impairment annually or whenever there is any indication of impairment. At 31 December 2011, there was no indication of impairment.

12. BIOLOGICAL ASSETS

Movements of the biological assets are summarised as follows:

	Immature chicken breeders	**Mature chicken breeders**	**Broilers**	**Breeder hogs**	**Commodity hogs**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Acquisition of subsidiaries *(note 15)*	603	1,855	3,974	3,038	5,383	14,853
Increase due to purchases	459	–	55,218	–	–	55,677
Additional costs incurred	5,259	7,560	28,919	4,660	10,483	56,881
Decrease due to retirement and deaths	(147)	(305)	(70)	–	(736)	(1,258)
Decrease due to sales	(162)	(3,704)	(85,106)	(478)	(16,540)	(105,990)
Transfers	(4,474)	4,465	9	(4,556)	4,556	–
Transfer to inventories	–	(8,379)	–	–	–	(8,379)
Change in fair value less costs to sell	–	–	(199)	–	(641)	(840)
Exchange realignment	28	85	362	139	514	1,128
At 31 December 2011	1,566	1,577	3,107	2,803	3,019	12,072

Analysed for reporting purposes as:

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

13. TRADE RECEIVABLES

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

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

	2011	2010
	HK$'000	*HK$'000*
Neither past due nor impaired	**13,778**	9,345
Less than 1 month past due	**7,525**	2,545
1 to 3 months past due	**3,682**	780
Over 3 months past due	**735**	858
	25,720	13,528

14. 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:

	2011	2010
	HK$'000	*HK$'000*
Within 1 month	**162,295**	126,352
1 to 2 months	**8,927**	3,739
2 to 3 months	**3,099**	1,240
Over 3 months	**4,950**	4,846
	179,271	136,177

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

15. BUSINESS COMBINATIONS

On 30 December 2010, the Group entered into agreements with Guangzhou Baixing Pasturage and Feed Co., Ltd. ("**Baixing**"), Guangzhou Rongli Poultry Co., Ltd. ("**Rongli**") and Guangzhou Yisheng Poultry Co., Ltd. ("**Yisheng**") (collectively the "**Baixing Group**") to acquire a 70% equity interest of the Baixing Group at a total consideration of RMB38,000,000, (the "**Acquisition**") effective 1 January 2011. On 1 January 2011, the Group's representatives were appointed to the board of directors of Baixing Group and controlled the majority of the voting power, so as to obtain control of the financial and operating policies of the Baixing Group. Accordingly, Baixing Group became a 70% owned subsidiary of the Group and its results are consolidated in the Group thereafter.

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

	Fair value recognised on acquisition
	HK$'000
Property, plant and equipment	74,232
Biological assets *(note 12)*	14,853
Inventories	4,199
Trade receivables	9,282
Prepayments, deposits and other receivables	6,376
Cash and bank balances	6,030
Trade payables	(9,066)
Other payables and accruals	(61,457)
Tax payable	(27)
Deferred tax liabilities	(3,110)
Non-controlling interests	(12,394)
Total identifiable net assets at fair values	28,918
Goodwill on acquisition *(note 11)*	15,504
Satisfied by cash	44,422

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

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

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

16. EVENT AFTER THE REPORTING PERIOD

On 21 October 2011, the Group entered into definitive sales and purchase agreement with an independent third party to purchase a building situated in Dongguan at a cash consideration of RMB70,827,000. The transaction was completed on 20 February 2012 upon the Property Ownership and Land Use Rights Certificate being obtained. After the reporting period, the building was recognised as property, plant and equipment at cost for the restaurant operation.

OTHER INFORMATION

Dividend

In acknowledging continuous support from the Company's shareholders, the Directors have declared the payment of a final dividend of HK6.60 cents per ordinary share in respect of the year ended 31 December 2011, payable on 6 June 2012 to shareholders whose names appear on the register of member of the Company on 31 May 2012.

Closure of Register of Members

The register of members of the Company will be closed during the following periods:

(i) from Monday, 21 May 2012 to Thursday 24 May 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlements to attend and vote at the 2011 Annual General Meeting. In order to be eligible to attend and vote at the 2011 Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 18 May 2012; and

(ii) From Friday, 1 June 2012 to Tuesday 5 June 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlements to the proposed final dividend. In order to establish the entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 31 May 2012;

During the periods mentioned in sub-paragraphs (i) and (ii) above, no transfer of shares will be registered.

Corporate Governance

During the year ended 31 December 2011, the Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to 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 2011.

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 2011 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 2011 Annual General Meeting of the Company will be held on Thursday, 24 May 2012. Notice of the 2011 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, 22 March 2012

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