Annual Report 2007

稻香集團

Tao Heung Holdings Limited
稻香控股有限公司*

(Incorporated in the Cayman Islands with Limited Liability)

Stock Code : 573

* For identification purposes only

Contents

Corporate Information

Board of Directors

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

Company Secretary

Mr. Leung Yiu Chun *FCCA, FCPA*

Qualified Accountant

Ms. Tsang Wing Ka *CPA*

Authorised Representatives

Mr. Leung Yiu Chun
Mr. Ho Yuen Wah

Members of Audit Committee

Mr. Mak Hing Keung, Thomas *(Chairman)*
Mr. Li Tze Leung
Professor Chan Chi Fai, Andrew

Members of Nomination Committee

Professor Chan Chi Fai, Andrew *(Chairman)*
Mr. Ng Yat Cheung
Mr. Chan Yue Kwong, Michael

Members of Remuneration Committee

Mr. Li Tze Leung *(Chairman)*
Mr. Fong Siu Kwong
Mr. Mak Hing Keung, Thomas

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong

No. 13 Au Pui Wan Street, Fo Tan
Shatin, New Territories, Hong Kong

Principal Share Registrar

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

Hong Kong Branch Share Registrar

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

Principal Bankers

Bank of China (Hong Kong) Limited
Bank of East Asia, Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited

Principal Auditors

Ernst & Young

Compliance Adviser

UOB Asia (Hong Kong) Limited

Stock Code

573

Website

www.taoheung.com.hk

Financial Highlights and Calendar

Key Financial Ratios	Notes	2007 HK$'000	2006 HK$'000	% Change Increase/ (Decrease)
Performance				
Revenue		**2,099,684**	1,574,381	33.4%
Profit attributable to equity holders of the Company		**200,306**	138,839	44.3%
Gross profit margin		**66.0%**	67.5%	(2.2%)
Net profit margin	1	**9.5%**	8.8%	8.0%
Staff costs to revenue		**27.7%**	29.5%	(6.1%)
Lease payments under operating leases in respect of land and buildings to revenue		**6.6%**	6.8%	(2.9%)
		HK cents	*HK cents*	
Per Share Data				
Earnings per share				
– Basic		**21.19**	15.85	33.7%
– Diluted		**21.19**	N/A	N/A
Interim dividend per share	2	**3.25**	2,777.78	N/A
Special dividend per share	2	**2.96**	N/A	N/A
Proposed final dividend per share	2	**5.00**	N/A	N/A

	Notes	2007 HK$'000	2006 HK$'000	% Change Increase/ (Decrease)
Total assets		**1,271,529**	698,979	81.9%
Net assets		**931,627**	364,670	155.5%
Cash and cash equivalents		**459,486**	137,912	233.2%
Net cash	3	**388,293**	21,796	1,681.5%
Liquidity and Gearing				
Current ratio	4	**2.13**	1.01	110.9%
Quick ratio	5	**1.98**	0.92	115.2%
Gearing ratio	6	**0.08**	0.32	(75.0%)
		HK cents	*HK cents*	
Per Share Data				
Net assets per share	7	**91.83**	41.63	120.6%
Net cash per share	8	**38.28**	2.49	1,437.3%

Notes:

1. Net profit margin is calculated as net profit attributable to equity holders of the Company divided by revenue.

2. The dividend per share for the year ended 31 December 2006 was calculated as HK$25,000,000 divided by 9,000 shares, representing the number of share issued by Tensel Investment Limited, a subsidiary which was the then holding company of all the subsidiaries of the Group (other than Sky Cheer Group Limited). Interim dividend, special dividend and proposed final dividend per share for the year ended 31 December 2007 are calculated based on the number of 1,000,000,000 shares issued on 30 June 2007 plus 14,460,000 shares issued pursuant to the exercise of an over-allotment option on 19 July 2007.

3. Net cash is cash and cash equivalents less interest-bearing bank borrowings.

4. Current ratio is calculated as current assets divided by current liabilities.

5. Quick ratio is calculated as current assets less inventories divided by current liabilities.

6. Gearing ratio is calculated at total debt (interest-bearing bank borrowings and finance lease payables) divided by total shareholders' equity.

7. Net assets per share is calculated based on the number of 1,014,460,000 shares (2006: 876,000,000 shares).

8. Net cash per share is calculated based on the number of 1,014,460,000 shares (2006: 876,000,000 shares).

Announcement of interim results	12 September 2007
Announcement of annual results	10 April 2008
Despatch of Annual Report to shareholders	30 April 2008
Closure of register of members for the proposed final dividend	19 May 2008 to 21 May 2008
Annual General Meeting	21 May 2008
Dividends:	
Interim: HK3.25 cents per share paid	16 October 2007
Special: HK2.96 cents per share paid	16 October 2007
Final: HK5.00 cents per share payable on	29 May 2008

Chairman's Statement

Upon successful listing on the Stock Exchange in 2007, Tao Heung achieved a record high in turnover and profit attributable to equity holders of approximately HK$2.1 billion and HK$200.3 million, respectively.

To our shareholders,

On behalf of the Board of Directors (the "**Board**") of Tao Heung Holdings Limited (the "**Company**"), together with its subsidiaries (collectively "**Tao Heung**" or the "**Group**"), I am pleased to present the annual results of the Group for the year ended 31 December 2007.

In June 2007, following years of rapid expansion in our restaurant operations, the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing**"), which was an important milestone in recognition of the Group's leading market position, business and financial strengths. However, this milestone should not overshadow the accomplishments that were also made in our restaurant operations, both in Hong Kong and Mainland China, as well as the opening of our new food processing and logistics centre in Dongguan, the People's Republic of China, (the "**Dongguan Logistics Centre**") during the year.

For the year under review, we have been able to deliver a solid financial and operational performance. The Group's revenue and profit attributable to equity holders achieved a record high of approximately HK$2.1 billion and HK$200.3 million, respectively. As at 31 December 2007, the Group's financial position continued to be strong, with net asset value increasing to approximately HK$931.6 million and net cash of approximately HK$388.3 million.

As the Group continues to maintain a healthy net cash position for funding our future expansion plans and potential development opportunities, I would recommend to the Board to deliver greater return to our equity holders with a proposed final dividend of HK5.00 cents per share. Together with the interim and special dividends of HK6.21 cents per share paid during the year, total dividends of HK11.21 cents per share would have been repatriated for the entire year, representing a payout ratio of 52.9%.

Sustainable growth in the Hong Kong market

Riding on the Group's multi-branding strategy, we continued to satisfy the tastes of restaurant-goers in Hong Kong and remained as one of the preferred providers of fine Chinese cuisine. Revenue from the Hong Kong market reached approximately HK$1.8 billion, representing an increase of 16.0% as compared to 2006. To better cater for the needs of consumers, constant improvement in shop design remains a critical successful factor. During the year, we had successfully completed the re-branding and renovation program for our "Tao Heung" brand. This new design provides a more comfortable and hygiene dining experience, aims to add value to our customers and win customer loyalty, and is proven by a higher than average same store sales growth of 3.23%. During the year under review, we also opened seven additional restaurants and kiosk, raising the total count in key locations across the territory to 47 as at 31 December 2007.

Promising opportunities in the Mainland China market

The tremendous potential of the Mainland China market has always been our long term imperatives of strategic value and we recognise the Group's continuous expansion into Mainland China market as being a key driver for our future business growth. After taking over the restaurant business in Mainland China from our controlling shareholders in January 2007, our restaurants have continued to win the tastes of local consumers. We have witnessed promising results after implementing a series of value-added business improvement initiatives in the areas of operational flow, procurement and product development as well as staff training. I am pleased to report that we achieved revenue and net profit for our Mainland China restaurant operations of approximately HK$287.8 million and HK$25.4 million, respectively. Building on our previous successful experience and a more refined business model together with the opening of the Dongguan Logistics Centre, we are now embarking on a more aggressive network development strategy in Southern China. During the year under review, we added two additional outlets to our portfolio of restaurants in Mainland China, raising the total count to seven as at 31 December 2007.

Outlook

To complement our expanding network of restaurants, which is set to grow even larger in the coming years, we successfully commenced operation of the Dongguan Logistics Centre during the year. The Dongguan Logistics Centre allows us to purchase goods in bulk and centralise the production and procurement processes which assures our operational efficiency and food quality, thus enhancing our supply chain management for our restaurant operations as well as for other catering businesses.

The opening of the Dongguan Logistics Centre reflects our ongoing commitment and efforts to develop the Group's operations, leveraging synergies among businesses and capitalising on economies of scale. Consequently, we will continue to open more restaurants in Hong Kong and Mainland China in the near future, in particular in the Southern China region where rising consumption power promises enormous growth potential. In addition to our core business, the Group's involvement in other segments such as airline catering and chilled food trading can also benefit from the Dongguan Logistics Centre. We would be able to maximise the utilisation of the Dongguan Logistic Centre to meet market demand while exploring lucrative opportunities that come from enhanced capacity and efficiency. The management is confident that following the smooth running of the Dongguan Logistics Centre in 2008 and the expected enhancement of the overall utilisation rate, the Dongguan Logistics Centre should bear fruits in the upcoming years.

Awards and Recognition

Embracing the "People First" philosophy, we understand that our employees are at the core of the Group. We offer various staff programmes to address their needs both in career and personal developments as well as recreational activities. I am glad also to report that the Group was recognised for its training excellence in winning the Gold Prize of the The Hong Kong Management Association's Award for Excellence in Training and the 2007 ASTD Awards with "The Unconventional Chef" training programme.

Appreciation

On behalf of the Board, I would like to take this opportunity to extend my gratitude to the management and staff for their dedication and unwavering efforts over the year. I wish to also express my appreciation to our customers and business partners for their continuing support. As always, we will remain committed to furthering the success of the Group while seeking to generate greater returns for our shareholders.

Chung Wai Ping
Chairman

Hong Kong
10 April 2008

Management Discussion and Analysis

With the increase in number of restaurants in both the Hong Kong and Mainland China markets, and the opening of the Dongguan Logistics Centre, the Group is confident that future years would be rewarding.

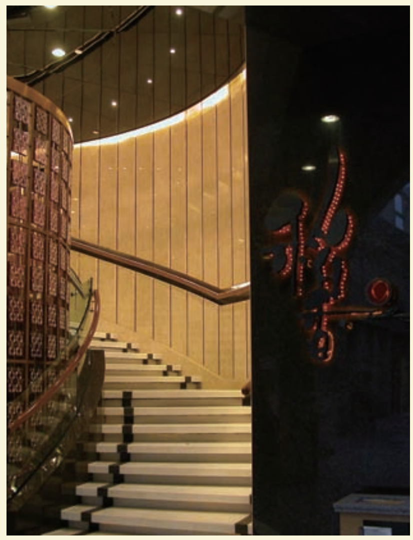
Management Discussion and Analysis

The Board is pleased to announce the Group's annual results for the year ended 31 December 2007. The positive performance that has been achieved builds on the Group's successful listing on the Main Board of the Stock Exchange on 29 June 2007. The Group has prudently utilised the funds raised to further bolster its position in the Hong Kong and Mainland China markets, establishing a solid platform from which future expansion can be realised.

Financial Results

Continuing to capitalise on rising purchasing power and demand for quality cuisine, the Group's operations in Hong Kong and Mainland China achieved solid growth in 2007. Revenue of approximately HK$2.1 billion was recorded for the year under review, representing a year-on-year rise of 33.4%. The Group's profit attributable to equity holders rose by 44.3% to approximately HK$200.3 million due to same store sales growth as well as the opening of additional restaurants during the year. Excluding the gain on disposal of leasehold land and buildings of approximately HK$32.0 million, share issue expenses of approximately HK$6.3 million and equity-settled share option expenses of approximately HK$5.7 million charged to the income statement, profit generated from the Group's core business was approximately HK$180.3 million, representing an increase of 29.8% as compared to that of the previous year.

Gross profit margin dropped slightly to 66.0% (2006: 67.5%). Such decrease was mainly attributable to the increase in raw material costs and the inclusion of the Group's Mainland China business since 1 January 2007 which generated relatively lower gross profit margin of 59.6% as compared to 67.1% for the Group's Hong Kong operations. To combat the rise in food costs, the Group has continuously reviewed its recipes and changed its ingredient-mix where possible. Bulk purchases at logistics centres have also been made in an effort to minimise expenditures. Despite the continuous increase in pressure in human resources and rental market, the Group was able to control its rental and labour expenses at 6.6% and 27.7%, respectively, to revenue (2006: 6.8% and 29.5%) through operational flow enhancement and effective cost control policy. Both expenses ratios recorded a reduction as compared to 2006.



For the year under review, all of the Group's businesses achieved stable growth. Notably, the Group's Mainland China business was able to increase its contribution and accounted for 13.9% of the Group's total revenue. Apart from the Chinese restaurant business, the Group has continued to explore new business opportunities including the opening of its first Hong Kong-style café in Kwai Chung; the diversification into airlines catering; the acquisition of minority interests in the Tai Cheong Bakery chain; and the supply of chilled food to supermarket chains and convenience stores. The management believes that these business segments will grow healthily as demand continues to increase with the commencement of Dongguan Logistics Centre's operations in September 2007, enabling the Group to benefit from economies of scale and better cost savings.

Hong Kong Operations

The Group's operations in Hong Kong generated revenue of approximately HK$1.8 billion, representing a year-on-year increase of 16.0%. The rise in performance was partly due to the increase in same store sales of 2.4% as well as the addition of seven restaurants and kiosk in the territory, raising the total count to 47 as of 31 December 2007. Though gross profit margin dropped slightly from 67.9% to 67.1% as compared to last year, the management expects margin to improve once the Dongguan Logistics Centre becomes fully operational by the end of 2008, whereupon more food products will be produced centrally and provided to the Hong Kong restaurants. Profit attributable to equity holders, excluding the gain on disposal of leasehold land and buildings of approximately HK$32.0 million, share issue expenses of approximately HK$6.3 million and equity-settled share option expenses of approximately HK$5.7 million charged to the income statement, amounted to approximately HK$176.1 million (2006: approximately HK$143.3 million), representing an increase of 22.9% as compared to last year. Moreover, there was improvement in the operation efficiency for the Group's Hong Kong restaurant operations as evident by the increase of the net profit margin from core business for the territory from 9.2% in 2006 to 9.7% in 2007.

Mainland China Restaurant Operations

As at 31 December 2006, the Group had one restaurant in Shenzhen. On 1 January 2007, the Group acquired 100% equity interest in Glory Rainbow International Trading Limited, Loyal Sky Holdings Limited, Skymark Asia Limited and Sky Rich (China) Limited together with their subsidiaries (collectively, the "**PRC Group**"), which owned two restaurants in Shenzhen and two restaurants in Guangzhou respectively. During the year under review, the Group opened two more restaurants (one in Guangzhou and one in Shenzhen). Accordingly, as at 31 December 2007, the Group had a total of seven restaurants in Mainland China.

Revenue for Mainland China restaurant operations amounted to approximately HK$287.8 million accounting for 13.7% of the Group's total revenue. Gross profit margin of 59.6% was achieved and the profit attributable to equity holders was approximately HK$25.2 million, representing a net profit margin of 8.7%. With further expansion of the Group's network in the pipeline, and the ability to capitalise on the Dongguan Logistics Centre once it is fully operational, the management is confident in bolstering its Mainland China restaurant operations so that it becomes an even more significant business component for the Group.

Dongguan Logistics Centre

In addition to the existing food processing and logistics centre in Fo Tan, Shatin, Hong Kong, the Group commenced operation of the Dongguan Logistics Centre in September 2007, providing additional support in this essential area of activity. The opening of this new logistic centre comes at an opportune time as food costs have continued to escalate. The Dongguan Logistics Centre enables the Group to purchase goods in bulk, and directly from the source of origin, thereby helps reducing the effects of rising prices. Moreover, the ability to centralise processing and procurement allows the Group to enhance efficiency and ensure the highest quality of its food products. The Dongguan Logistic Centre has already started to supply different products including processed and semi-processed foods such as dim-sum, barbecued pork, roast duck, Chinese buns and Chinese desserts to restaurants in Mainland China. With the capacity to support up to 200 restaurants, the Dongguan Logistics Centre will also play a key role in supporting the Group's operations in Hong Kong. During the year under review, the Dongguan Logistics Centre incurred pre-operating expenses of HK$13.1 million. In order to kick off its operation as the backbone of our restaurant operations, operating expenses of HK$7.7 million together with the depreciation expenses of HK$3.7 million had been charged to the income statement. The management is confident that following the smooth running of the Dongguan Logistics Centre in 2008 and the expected enhancement of the overall utilisation rate, the Dongguan Logistics Centre should enhance the efficiency of the Group's restaurant businesses both in Hong Kong and Mainland China through restaurants' margin improvement.

Peripheral Businesses

During the year under review, the Group's peripheral businesses recorded substantial growth but was still relatively insignificant in terms of the Group's total revenue. The airline catering segment successfully attracted one additional client, namely, Cathay Pacific Catering Services (HK) Limited, to the Group's portfolio. As for the Group's chilled food trading operations, the Group began to deliver products including meal boxes, Chinese buns, dim-sum, and Chinese desserts to 7-Eleven convenience stores in the Southern China region. Similarly, the Group supplied festive foods during the Chinese New Year, as well as chilled chickens to Park'N Shops as well as Jusco Stores in Hong Kong.

Financial Resources and Liquidity

The Group maintained a strong financial and liquidity position during the year under review. As at 31 December 2007, the Group's total assets increased by 81.9% to approximately HK$1,271.5 million (2006: approximately HK$699.0 million) while the total equity increased by 155.4% to approximately HK$931.6 million (2006: approximately HK$364.7 million).

As at 31 December 2007, the Group had cash and cash equivalents amounting to approximately HK$459.5 million. After deducting total interest-bearing bank borrowings of approximately HK$71.2 million, the Group had a net cash surplus position of approximately HK$388.3 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 2007, the Group's total interest-bearing bank borrowings were reduced to approximately HK$71.2 million (2006: approximately HK$116.1 million). The gearing ratio (defined as the total of interest-bearing bank borrowings plus finance lease payable divided by the total shareholders' equity) was reduced to 7.7% (2006: 32.2%).

Capital Expenditure

Capital expenditure for the year ended 31 December 2007 amounted to approximately HK$205.9 million and the capital commitments as at 31 December 2007 amounted to approximately HK$5.0 million. Both the capital expenditure and capital commitments were mainly related to the renovation of the Group's new and existing restaurants and the construction works of the Dongguan Logistics Centre.

Material Acquisition and Disposal

On 1 January 2007, the Group entered into a sale and purchase agreement with Messrs. Chung Wai Ping and Chung Ming Fat, being directors and shareholders of the Company, to acquire 100% equity interest in the PRC Group for a total cash consideration of HK$51.0 million. The PRC Group is principally engaged in the restaurant operations in Mainland China. The fair values of the net assets acquired were approximately HK$38.8 million at the date of acquisition, and a goodwill of approximately HK$13.1 million was capitalised as a result of the acquisition.

Save as disclosed above, there were no material acquisition or disposal of investments and subsidiaries during the year ended 31 December 2007.

Contingent Liabilities

As at 31 December 2007, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$27.9 million (2006: approximately HK$19.3 million).

Foreign Exchange Risk Management

The Group's sales and purchases for the year ended 31 December 2007 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 maintain a foreign currency hedging policy. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Use of Proceeds

The proceeds from the initial public offering of the Company in Hong Kong in June 2007, after deduction of related issuance expenses, amounted to approximately HK$405.0 million. As at 31 December 2007, approximately of HK$81.1 million of the proceeds have been used and were applied in accordance with the proposed applications set forth in the Prospectus. The unutilised proceeds have been placed with licensed banks and financial institutions in Hong Kong as interest-bearing deposits or currency-linked structured deposits in order to generate better return on surplus cash.

Human Resources

As at 31 December 2007, the Group had 6,003 employees. In order to attract and retain the 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 has also adopted a pre-initial public offering share option scheme (the "**Pre-IPO Share Option Scheme**") and a share option scheme (the "**Share Option Scheme**"), which eligible employees are entitled to certain 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 2007, approximately 15,150,000 options were outstanding under the Pre-IPO Share Option Scheme and no such share options have been exercised yet. Also, no options have been granted or agreed to be granted pursuant to the Share Option Scheme as at 31 December 2007.

Pledge of Assets

As at 31 December 2007, the Group pledged its bank deposits of approximately HK$31.5 million, unlisted investments of approximately HK$82.0 million, leasehold land and buildings of approximately HK$100.5 million and investment properties of approximately HK$14.7 million to secure the banking facilities granted to the Group.

Prospects

The management remains optimistic about the Group's prospects in both Hong Kong and Mainland China markets. With healthy economies and rising consumption power, particularly in Mainland China, there remains significant growth potential. To capture such growth, the Group will continue with its multi-branding strategy that tailors to the needs of different customer segments. In this connection, the Group intends to open six additional restaurants in each of the Hong Kong and Mainland China markets in 2008. Apart from Guangzhou and Shenzhen, the management will also explore and enter into other prime cities in the Guangdong province, such as Dongguan, Zhongshan and Zhuhai, to maintain the Group's growth momentum.

With the Dongguan Logistics Centre expected to be fully operational in 2008, this will further bolster the Group's expansion efforts while at the same time satisfy the needs of a growing restaurant network, both in Hong Kong and Mainland China. In addition, the Dongguan Logistics Centre will facilitate greater cost controls and enhance efficiency, thereby moderating raw material cost pressures.

In terms of the Group's peripheral businesses, the management will seek to augment its sales and catering operation, develop more distribution channels and align with new business partners to explore profitable business opportunities, such as the recently acquired "Tai Cheong" bakery chain (an egg-tart bakery chain). The Dongguan Logistics Centre can provide facilities to support the mass production of this popular Chinese pastry and further business expansion.

Overall, the Group will maintain its commitment to providing quality food and services for which customers have grown to trust. In addition to offering fine dining experiences, the management will endeavor to elevate the Group's position to become one of the most highly respected Chinese restaurant operator in Hong Kong and Mainland China. Upholding responsibility to shareholders, the Group will dedicate its efforts towards realising long-term sustainable growth.

Directors and Senior Management

Executive Directors

Mr. Chung Wai Ping, aged 48, is an Executive Director and was appointed on 29 December 2005. Mr. Chung is the chairman of the Board and one of the founders of the Group. Mr. Chung is primarily responsible for overall corporate strategies, planning and business development of the Group. Mr. Chung established the Group in 1991 and has over 30 years of experience in the Chinese restaurant industry. Mr. Chung started his career as an apprentice cook of a local restaurant in Hong Kong from 1975 and became the Sous Chef of the Garden Hotel, Guangzhou, China in 1985. In 1991, Mr. Chung co-founded the first Tao Heung Seafood Hotpot Restaurant in Hong Kong. Mr. Chung is currently the Emeritus Honorary President of the Chinese Cuisine Management Association, the President of Association of Restaurant Managers and The Honorary Chairman of the China branch of Les Amis d'Escoffier Society Co. Mr. Chung won the Chief Executive Officer of the year (Hospitality) in 2003 organised by the Asia Pacific Customer Service Consortium, the Top Ten Man of the Time in Catering Industry in Yue-Gang-Ao held by the China Hospitality Association and Innovative entrepreneur of the Year organised by the Junior Chamber International Hong Kong in 2005. In 2006, Mr. Chung won the Capital Leader of Excellence 2006 organised by the "Capital" Magazine. Mr. Chung is a cousin of Mr. Chung Ming Fat, who is an Executive Director.

Mr. Wong Ka Wing, aged 50, is an Executive Director and was appointed on 1 March 2007. Mr. Wong is one of the founders of the Group. Mr. Wong is primarily responsible for our internal audit department, which conducts operational audit on the quality of food and services and the environment of restaurants and food processing and logistic centres, as well as the internal control system audit and financial audit in Hong Kong and China. Mr. Wong has over 20 years of experience in the Chinese restaurant industry. Mr. Wong obtained a diploma in production and industry engineering from Hong Kong Polytechnic University.

Mr. Chung Ming Fat, aged 53, is an Executive Director and was appointed on 29 December 2005. Mr. Chung is one of the founders of the Group. Mr. Chung is primarily responsible for the quality assurance and central procurement of the Group. Mr. Chung has over 30 years of experience in the Chinese restaurants industry. Mr. Chung is a cousin of Mr. Chung Wai Ping, who is the chairman.

Mr. Leung Yiu Chun, aged 37, is an Executive Director and was appointed on 9 March 2007. Mr. Leung is the Chief Executive Officer and is primarily responsible for business development and our overall strategic planning in finance, accounting, administration and marketing of the Group. Mr. Leung joined the Group in October 2002 as director of finance and began his career in the Chinese restaurant industry. Prior to joining the Group, Mr. Leung had over 10 years experience in financial management and auditing for various Hong Kong listed companies, including Hop Hing Holdings Limited and Mirabell International Holdings Limited, the shares of both companies are listed on the Main Board, and an international accounting firm. Mr. Leung holds a Master degree in Business Administration and a Bachelor degree of Arts (Honours) in Accountancy from the Hong Kong Polytechnic University. Mr. Leung is currently a Fellow member of the Association of Chartered Certified Accountants and a Fellow member of the Hong Kong Institute of Certified Public Accountants.

Ms. Wong Fun Ching, aged 45, is an Executive Director and was appointed on 1 March 2007. Ms. Wong is the director of logistics operation and is primarily responsible for the overall operation of our food processing and logistics centres. Ms. Wong joined the Group in August 2005 as deputy director of logistics operation and began her career in the Chinese restaurant industry. Prior to joining the Group, Ms. Wong held management positions in various multinational corporations, including Motorola Inc. Ms. Wong holds a higher certificate in production and industrial engineering from the Hong Kong Polytechnic University, a Bachelor degree (honours) of Business Administration in Business Information Systems from the Open University of Hong Kong and a Master degree of Science in Engineering Business Management from the Hong Kong Polytechnic University.

Mr. Ho Yuen Wah, aged 46, is an Executive Director and was appointed on 1 March 2007. Mr. Ho is the Director of business management department and is primarily responsible for our overall restaurants operations and management including food production in the restaurants of the Group. Mr. Ho joined the Group in December 1991 as restaurant manager and was promoted to be the director of business management department of the Group in 2003. Mr. Ho has over 25 years of experience in the Chinese restaurant industry.

Non-executive Directors

Mr. Fong Siu Kwong, aged 50, is a Non-executive Director and was appointed on 1 March 2007. Besides, he was also appointed as a member of Remuneration Committee on 9 June 2007. Mr. Fong holds a Bachelor degree of Laws from University of Wolverhampton, a Postgraduate Certificate in Laws from The University of Hong Kong and a Master degree of Laws in Chinese and Comparative Law from the City University of Hong Kong. He was admitted as a solicitor in Hong Kong in 1996. Mr. Fong is currently a consultant solicitor in Howell & Co. Mr. Fong has over 28 years of legal experience. Mr. Fong is also the Honourable legal adviser of the Hong Kong Chinese Civil Servants' Association.

Mr. Chan Yue Kwong, Michael, aged 56, is a Non-executive Director and was appointed on 6 March 2007. Besides, he was also appointed as a member of Nomination Committee on 9 June 2007. Mr. Chan is the executive chairman of Café de Coral Holdings Limited whose shares are listed on the Main Board of the Stock Exchange. Mr. Chan is also an independent non-executive director of Starlite Holdings Limited, Kingboard Laminates Holdings Limited and Pacific Textiles Holdings Limited, all being companies listed on the Main Board of the Stock Exchange. Mr. Chan holds a double major degree in Sociology and Political Science, a Master degree in City Planning from the University of Manitoba, Canada and an Honorary Doctorate degree in Business Administration from Southern California University.

Mr. Chan is currently an executive committee member of the Hong Kong Retail Management Association, council member of the Employers' Federation of Hong Kong, elected member of the Quality Tourism Services Association and the Board Member of the Hong Kong Tourism Board. Mr. Chan is also the Chairman of the Business Enterprise Management Centre of the Hong Kong Management Association. Mr. Chan has over 12 years of professional experience in the public sector and over 22 years of managerial experience in the food and catering industry.

Independent Non-executive Directors

Mr. Li Tze Leung, SBS JP, aged 53, is an Independent Non-executive Director and was appointed on 1 March 2007. Besides, he was also appointed as a member of both Audit Committee and Remuneration Committee on 9 June 2007. Mr. Li has been serving the retail industry for more than 30 years and is currently the president of Broadway Photo Supply Ltd., Chairman of both Quality Tourism Services Association and Hong Kong Photo Marketing Association Ltd. He is also an Executive Committee Member of Hong Kong Retail Management Association and currently serves on the Hong Kong SAR Election Committee. Mr. Li was the President of H.K. & Kowloon Electrical Appliances Merchants Association Limited and Chairman of Radio Association of Hong Kong.

Professor Chan Chi Fai, Andrew, SBS, JP, aged 54, is an Independent Non-executive Director and was appointed on 9 March 2007. Besides, he was also appointed as a member of both Audit Committee and Nomination Committee on 9 June 2007. Professor Chan holds a Master degree of Business Administration from the University of California, Berkeley, U.S., a Bachelor degree of Business Administration and a Doctorate degree of Philosophy from the Chinese University of Hong Kong (CUHK). Professor Chan is currently a professor in the Department of Marketing and the Director of the EMBA programme in the CUHK. Professor Chan is also currently the Chairman of the Hong Kong Deposit Protection Board, a member of the Electoral Affairs Commission and an advisor of the Quality Tourism Services Association. Professor Chan has approximately 27 years of experience in the education industry.

Mr. Mak Hing Keung, Thomas, aged 45, is an Independent Non-executive Director and was appointed on 1 March 2007. Besides, he was also appointed as a member of both Audit Committee and Remuneration Committee on 9 June 2007. Mr. Mak holds a Bachelor degree of Commerce from Queen's University, Canada. Mr. Mak is a member of the Canadian Institute of Chartered Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Mak is currently the Chief Financial Officer of Redgate Media Inc. Prior to joining the Redgate Media Inc., Mr. Mak was the Chief Financial Officer of Minmetals Resources Limited and RoadShow Holdings Limited respectively, both are listed on the Main Board of the Stock Exchange. From 1997 to 2001, Mr. Mak worked for an investment bank and the Stock Exchange respectively. Mr. Mak has also worked for an international accounting firm in Hong Kong, Singapore and Canada for over seven years.

Mr. Ng Yat Cheung, JP, aged 52, is an Independent Non-executive Director and was appointed on 1 March 2007. Besides, he was also appointed as a member of Nomination Committee on 9 June 2007. Mr. Ng is currently Chairman of ECD Hong Kong Limited which is engaged in technology business. Mr. Ng was previously appointed as a non-executive Director of M Dream Inworld Limited (formerly known as Inworld Group Limited), a company listed on the Growth Enterprise Market of the Stock Exchange, in June 2003 and resigned on 15 August 2005.

Senior Management

Mr. Cheng Ho Yuen, aged 42, is the director of human resources department and is primarily responsible for overall personnel and training activities of the Group. Mr. Cheng joined the Group in November 1997 as restaurant manager and was subsequently transferred to human resources department. Mr. Cheng has over 20 years of experience in the Chinese restaurant industry.

Ms. Tsang Wing Ka, aged 33, is our director of finance and accounting department and is primarily responsible for our overall finance, accounting and taxation functions. Ms. Tsang joined us in December 2002 as finance and accounting manager. Ms. Tsang has over 10 years of experience in financial management. Ms. Tsang holds a Master's degree in Business Administration from the Chinese University of Hong Kong, a Bachelor's degree in Commerce (Accounting) from Curtin University of Technology in Australia and is currently an associate member of the Hong Kong Institute of Certified Public Accountants.

Ms. Chan Yung Foon, Stella, aged 35, is the director of marketing and administration department and is primarily responsible for the formulation and implementation of policies and procedures as well as marketing and promotional activities of the Group. Ms. Chan joined the Group in March 1997 as accounting manager and began her career in the Chinese restaurant industry. Prior to joining the Group, Ms. Chan had over five years of experience in the accounting industry.

Ms. Li Hiu Ming, aged 39, joined the Group in March 2002 as a manager of the human resources department. Ms. Li was promoted to deputy director of human resources department in 2006. Ms. Li holds a Master's degree of Science in Strategic Human Resources management from Hong Kong Baptist University and a Bachelor's degree in Business from Monash University. Ms. Li has over 15 years experience in human resources management in a Hong Kong listed company and other retail & information technology companies.

Corporate Governance Report

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

The Company has complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices (the "**CG Code**") as set forth in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") of the Stock Exchange throughout the year ended 31 December 2007.

Model Code for Securities

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

Board of Directors

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

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

Executive Directors:	
Mr. Chung Wai Ping *(Chairman)*	
Mr. Wong Ka Wing	appointed on 1 March 2007
Mr. Chung Ming Fat	
Mr. Leung Yiu Chun *(Chief Executive Officer)*	appointed on 9 March 2007
Ms. Wong Fun Ching	appointed on 1 March 2007
Mr. Ho Yuen Wah	appointed on 1 March 2007
Non-executive Directors:	
Mr. Fong Siu Kwong	appointed on 1 March 2007
Mr. Chan Yue Kwong, Michael	appointed on 6 March 2007
Independent Non-executive Directors:	
Mr. Li Tze Leung	appointed on 1 March 2007
Professor Chan Chi Fai, Andrew	appointed on 9 March 2007
Mr. Mak Hing Keung, Thomas	appointed on 1 March 2007
Mr. Ng Yat Cheung	appointed on 1 March 2007

Biographical information of the directors is set forth on pages 15 to 17 of this annual report. The relationship among the members of the Board, if any, are set out on pages 15 to 17 of this Annual Report.

Board of Directors *(continued)*

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

The Company has issued an appointment letter to each of the Non-executive Directors and Independent Non-executive Directors of the Company for a term of one year commencing from the date of the Listing unless terminated by either party giving to other not less than one month's prior notice in writing.

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

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

The Chairman and Chief Executive Officer

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

Board Meetings

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

The company secretary of the Company is responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

Details of Directors' attendance at Board meetings and Board committee meetings are set forth in the following table:

	Board	**Audit Committee**	**Remuneration Committee**
Number of meetings held during the year (since the date of the listing)			
Executive Directors:			
Mr. Chung Wai Ping *(Chairman)*	2/2	—	—
Mr. Wong Ka Wing	2/2	—	—
Mr. Chung Ming Fat	2/2	—	—
Mr. Leung Yiu Chun *(Chief Executive Officer)*	2/2	—	—
Ms. Wong Fun Ching	2/2	—	—
Mr. Ho Yuen Wah	2/2	—	—
Non-executive Directors:			
Mr. Fong Siu Kwong	2/2	—	1/1
Mr. Chan Yue Kwong, Michael	2/2	—	—
Independent Non-executive Directors:			
Mr. Li Tze Leung	2/2	1/1	1/1
Professor Chan Chi Fai, Andrew	2/2	1/1	—
Mr. Mak Hing Keung, Thomas	2/2	1/1	1/1
Mr. Ng Yat Cheung	2/2	—	—
Average attendance rate	100%	100%	100%

Board Committees

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

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

Audit Committee

Composition

The Company established the Audit Committee on 9 June 2007 with written terms of reference in compliance with the Code on Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The Audit Committee has three members comprising Mr. Mak Hing Keung, Thomas, Mr. Li Tze Leung and Professor Chan Chi Fai, Andrew, all being Independent Non-executive Directors. The Chairman of the Audit Committee is Mr. Mak Hing Keung, Thomas.

Role and Function

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

Summary of Work Done

The following is a summary of the work performed by the Audit Committee during the year ended 31 December 2007:

1. Review of the interim results of the Group for the six months ended 30 June 2007;
2. Review of the Group's financial information;
3 Review of the continuing connected transaction as set forth on page 31 of this annual report;
4. Review of the effectiveness of the Group's internal audit function;
5. Review of the status of all business, restaurant and liquor licenses; and
6. Review of the status of the leases and the property title.

Nomination Committee

Composition

The Company established the Nomination Committee on 9 June 2007 with written terms of reference in compliance with the Code on Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The Nomination Committee has three members comprising Professor Chan Chi Fai, Andrew, Mr. Ng Yat Cheung and Mr. Chan Yue Kwong, Michael, two of whom are Independent Non-executive Directors. The Chairman of the Nomination Committee is Professor Chan Chi Fai, Andrew.

Role and Function

The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment of Directors and the management of the Board succession.

Since the Company was listed on the Stock Exchange on 29 June 2007, there was no committee meeting held during the year ended 31 December 2007. The first nomination committee meeting will be held within the first year after the listing.

Remuneration Committee

Composition

The Company established the Remuneration Committee on 9 June 2007 with written terms of reference in compliance with the Code on Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The Remuneration Committee has three members comprising Messrs. Li Tze Leung, Fong Siu Kwong and Mak Hing Keung, Thomas, two of whom are Independent non-executive Directors. The Chairman of the Remuneration Committee is Mr. Li Tze Leung.

Role and Function

The primary duties of the Remuneration Committee include making recommendations to the Board on the policy and structure of the Company for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration, determining the specific remuneration packages of all Executive Directors and senior management, including without limitation — base salaries, share options and any benefits in kind, incentive payments and making recommendation to the Board on the remuneration of non-executive and Independent non-executive Directors.

Summary of Work Done

During the year ended 31 December 2007, the Remuneration Committee has reviewed the current salary and benefits (including discretionary bonus and incentive scheme) of all Executive Directors.

Directors' Responsibility for the Financial Statements

The Directors understand and acknowledge their responsibility for making sure that the financial statements for each financial year are prepared to reflect the true and fair view of the state of affairs, results and cash flow of the Group and in compliance with relevant law and disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2007, the Directors have selected appropriate accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis. The Directors also ensure that the financial statements of the Group are published in a timely manner.

The statement by the external auditor of the Company regarding their reporting responsibilities of the financial statements of the Group is set forth in the Independent Auditors' Report on page 33 to 34 of this annual report.

External Auditors

The Group appointed Ernst & Young as the Group's principal auditors. The acknowledgement of their responsibilities on the financial statements is set forth in the Independent Auditors' Report on page 33 to 34 of this annual report.

The remuneration paid to Ernst & Young for services rendered in respect of the year ended 31 December 2007 is as follows:

	2007 **HK$'000**	2006 HK$'000
Audit services	**2,750**	1,690
Non-audit services	**100**	—
Total	**2,850**	1,690

Internal Controls

The Board is responsible for maintaining an adequate internal control system to safeguard shareholders' interests and reviewing the effectiveness of such on an annual basis through the audit committee. The Board with the assistance of the internal audit department is conducting an annual review and assessment of the effectiveness of the risk management and internal control system of the Group. Such review covered all material controls, including financial, operational and compliance controls and risk management functions.

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

The directors acknowledge their responsibility for reviewing the Group's internal control systems and would communicate regularly with the audit committee and the external consultant. The Board was satisfied to the effectiveness of the Company in managing risks based on the internal audit report and the findings performed by the external consultant. The management has taken note of the external consultant's recommendations aiming at further strengthening the Group's internal control on continual process. Actions are in progress in accordance with the established timelines.

Investor Relations

To enhance transparency and effectively communicate with the investment community, the executive directors and senior management of the Company actively maintain close communications with various institutional investors, financial analysts and financial media by convening road shows and investors' conferences during the year. Investors are welcome to share their views with the Board by writing to the Company at its Hong Kong head office or sending enquiries to the Company's web site at www.taoheung.com.hk. Investors and shareholders are welcome to review the Company's recent announcements at the Company's web site at www.taoheung.com.hk.

Report of the Directors

The Board is pleased to present their annual report together with the audited consolidated financial statements of the Company and the Group for the year ended 31 December 2007.

Change of company name

Pursuant to a special resolution on 1 March 2007 and approved by the Registrar of Companies of the Cayman Islands, the name of the Company was changed from Tao Heung Catering Holdings Ltd. to Tao Heung Holdings Limited.

Group Reorganisation

The Company is a limited liability company incorporated in the Cayman Islands on 29 December 2005.

On 4 June 2007, pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the initial public offering of the shares of the Company on the Main Board of the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group. Further details of the Group's reorganisation are set forth in the Company's listing prospectus dated 15 June 2007 (the "**Prospectus**").

The shares of the Company have been listed on the Main Board of the Stock Exchange since 29 June 2007 (the "**Listing Date**").

Principal Activities

The principal activity of the Company is investment holding. The Group is principally involved in restaurant operations, provision of food and catering services and production, sale and distribution of food products related to restaurant operations. The activities of the principal subsidiaries are set out on pages 74 to 77 of this Annual Report. There were no significant changes in the nature of the Group's principal activities during the year.

Results and Dividends

The Group's profit for the year ended 31 December 2007 and state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 35 to 103.

An interim dividend of HK3.25 cents and a special dividend of HK2.96 cents per ordinary share, totaling approximately HK$63,000,000 were paid on 16 October 2007. The directors recommended the payment of a final dividend of HK5.00 cents per ordinary share, totaling HK$50,723,000 in respect of the year to shareholders on the register of members on 21 May 2008. The proposed final dividend for the year ended 31 December 2007 has been approved at the Company's board meeting on 10 April 2008. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet. Details of the dividends for the year ended 31 December 2007 are set forth in note 12 to the financial statements.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 19 May 2008 to Wednesday, 21 May 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 16 May 2008.

Use of proceeds from the Company's initial public offering

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

	Per Prospectus	**Utilised**	**Unutilised as at 31 December 2007**
	HK$'000	HK$'000	HK$'000
Opening of new restaurants in Hong Kong	81,000	32,345	48,655
Opening of new restaurants in Mainland China	81,000	7,151	73,849
Construction and operation of the Dongguan Logistics Centre	162,000	40,000	122,000
Upgrading of existing restaurants in Hong Kong	48,600	—	48,600
General working capital	32,400	1,550	30,850
	405,000	81,046	323,954

The unutilised balances have been placed with licensed banks and financial institutions in Hong Kong as interest-bearing deposits or currency-linked structured deposits.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set forth in note 36(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 December 2007, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$789,021,000, of which HK$50,273,000 has been proposed as a final dividend for the year. The amount of HK$738,077,000 includes the Company's share premium account and other reserve which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Charitable Donations

Charitable donations made by the Group during the year amounted to HK$160,000 (2006: HK$384,000).

Property, Plant and Equipment and Investment Properties

Details of the movements in property, plant and equipment, and investment properties of the Group during the year are set forth in notes 14 and 16 to the financial statements, respectively.

Share Capital and Share Options

Details of the movements in share capital and share options of the Company during the year are set forth in notes 34 and 35 to the financial statements, respectively.

Major Customers and Suppliers

For the year ended 31 December 2007, the percentage of sales attributable to the Group's five largest customers was less than 30% while the five largest suppliers and the single largest supplier of the Group accounted for approximately 45.0% and 26.8% of the purchase of the Group, respectively.

At no time during the year have the directors, their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers nor suppliers.

Financial Summary

A summary of the published results and assets, liabilities and minority interests of the Group for the last four financial years, as extracted from the consolidated financial statements, is set forth on page 104 of this Annual Report. This summary does not form part of the audited financial statements.

Pre-emptive Rights

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

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

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

Share Option Schemes

(a) Pre-IPO Share Option Scheme

Pursuant to the pre-initial public offering share option scheme (the "**Pre-IPO Share Option Scheme**") on 9 June 2007, the Company has granted 15,190,000 options to eligible directors, senior management and employees of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated under the Pre-IPO Share Option Scheme. The exercise price shall be 50% of the final offer price to the public. The Pre-IPO Share Option Scheme will remain in force for a period of 10 years from the grant date.

Share options granted under the Pre-IPO Share Option Scheme are exercisable at HK$1.59 per share and the holders of the said share options may exercise the share options during the period from 29 June 2009 to 28 June 2012, both days inclusive. At 31 December 2007, no outstanding options granted under the Pre-IPO Share Option Scheme have been exercised yet, and 40,000 options were cancelled upon the termination of employment during the year under review.

Movements of the share options, which have been granted under the Pre-IPO Share Option Scheme, during the year are set forth below:

Name	Date of Grant	Number of share options					
		Outstanding at 1 January 2007	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled upon termination of employment	Outstanding at 31 December 2007
Executive Directors							
Mr. Leung Yiu Chun	9 June 2007	—	800,000	—	—	—	800,000
Ms. Wong Fun Ching	9 June 2007	—	800,000	—	—	—	800,000
Connected Person							
Ms. Chan Sai Ying	9 June 2007	—	1,350,000	—	—	—	1,350,000
Other employees	9 June 2007	—	12,240,000	—	—	(40,000)	12,200,000
		—	15,190,000	—	—	(40,000)	15,150,000

(b) Share Option Scheme

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

Directors

The directors of the Company during the year were as follows:

Executive Directors:

Mr. Chung Wai Ping *(Chairman)*	
Mr. Wong Ka Wing	appointed on 1 March 2007
Mr. Chung Ming Fat	
Mr. Leung Yiu Chun *(Chief Executive Officer)*	appointed on 9 March 2007
Ms. Wong Fun Ching	appointed on 1 March 2007
Mr. Ho Yuen Wah	appointed on 1 March 2007

Non-executive Directors:

Mr. Fong Siu Kwong	appointed on 1 March 2007
Mr. Chan Yue Kwong, Michael	appointed on 6 March 2007

Independent Non-executive Directors:

Mr. Li Tze Leung	appointed on 1 March 2007
Professor Chan Chi Fai, Andrew	appointed on 9 March 2007
Mr. Mak Hing Keung, Thomas	appointed on 1 March 2007
Mr. Ng Yat Cheung	appointed on 1 March 2007

Pursuant to article 86(3) of the Company's articles of association, all of the directors as mentioned above shall retire and all retiring directors, being eligible, would offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") from each of the Independent Non-executive Directors and still considers them to be independent.

Directors' and Senior Management's Biographies

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

Directors' Service Contracts

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

The Company has issued an appointment letter to each of the Non-executive Directors and Independent Non-executive Directors for an initial term of one year commencing from the Listing Date unless and terminated by either party giving to other not less than one month's prior notice in writing.

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

Directors' Remuneration

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

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

Directors' Interests in Contract of Significance

Saved as disclosed under the "Continuing connected transaction" on page 31 of this annual report, no contract of significance to which the Company, or any of its holding company or subsidiaries was a party, and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interests in Competing Business

None of the directors is interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group during the year or at 31 December 2007.

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2007, the interests and short positions of the directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") were as follows:

		Number of ordinary shares (long position)					
Name of Directors	Notes	**Personal interests**	**Family interests**	**Corporate interests**	**Equity derivatives**	**Total interests**	**% of the Company's issued shares**
Executive Directors							
Mr. Chung Wai Ping	(a), (d) and (e)	—	12,174,222	360,097,689	1,350,000	373,621,911	36.83
Mr. Wong Ka Wing	(b)	—	—	103,283,124	—	103,283,124	10.18
Mr. Chung Ming Fat	(c)	—	—	59,795,068	—	59,795,068	5.89
Mr. Leung Yiu Chun	(f)	—	—	—	800,000	800,000	0.08
Ms. Wong Fun Ching	(f)	—	—	—	800,000	800,000	0.08
Mr. Ho Yuen Wah		8,000,000	—	—	—	8,000,000	0.79
Non-executive Directors							
Mr. Fong Siu Kwong		180,000	—	—	—	180,000	0.02
Independent Non-executive Directors							
Mr. Li Tze Leung		107,000	—	—	—	107,000	0.01
Mr. Ng Yat Cheung		1,005,137	—	—	—	1,005,137	0.10

Notes:

(a) 360,097,689 shares were held by Billion Era International Limited, which is wholly-owned by Mr. Chung Wai Ping.

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

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

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

(e) 1,350,000 options granted to Ms. Chan Sai Ying, spouse of Mr. Chung Wai Ping, under the Pre-IPO Share Option Scheme to subscribe for shares of the Company, further details of which are set forth in note 35 to the financial statements.

(f) These represented interests in options granted to Directors under the Pre-IPO Share Option Scheme to subscribe for shares of the Company, further details of which are set forth in note 35 to the financial statements.

Save as disclosed above, as at 31 December 2007, none of the directors or chief executives had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests in Shares and Underlying Shares

As at 31 December 2007, the interests and short positions of every person, other than directors or chief executive of the Company, in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register kept by the Company under Section 336 of the SFO were as follows:

		Number of ordinary shares (long position)	
Name of Shareholder	Notes	**Directly beneficially owned**	**% of the Company's issued shares**
Billion Era International Limited	(a)	360,097,689	35.50
Joy Mount Investments Limited	(b)	103,283,124	10.18
Perfect Plan International Limited		102,053,976	10.06
Whole Gain Holdings Limited	(c)	59,795,068	5.89

Notes:

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

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

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

Save as disclosed above, as at 31 December 2007, the Directors are not aware of any other person (other than the directors or chief executive of the Company) who have the interests or short positions in the shares and underlying shares of the Company which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

Directors' Right to Acquire Shares or Debentures

Save as disclosed in the "Directors' Interests and Short Positions in Shares and underlying shares" above and in the share option scheme disclosed in note 35 to the financial statements, at no time during the year was the Company, or any of its holding company or subsidiaries, a party to any arrangements to enable the Directors or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Continuing Connected Transaction

On 26 November 2007, the Company or its designated subsidiaries, as supplier, entered into a master supply agreement with Miracle Time Enterprise Limited ("**Miracle Time**") and Skybest International Investment Enterprise Limited ("**Skybest**"), which are non wholly-owned subsidiaries of the Company, as purchasers. The Company or its designated subsidiaries will supply or procure to supply the products to Miracle Time and / or Skybest for their daily consumption in the course of their respective businesses for a period of three years from 1 January 2008 to 31 December 2010, with the annual cap amounts to HK$32 million, HK$36 million and HK$40 million for the financial years ending 31 December 2008, 2009 and 2010 respectively.

Messrs. Chung Wai Ping, Wong Ka Wing and Chung Ming Fat, the directors of Miracle Time and Skybest, are also directors and controlling shareholders (such term as defined under the Listing Rules) of the Company. Hence they have material interests in the master supply agreement. Besides, both Miracle Time and Skybest are non wholly-owned subsidiaries of the Company and are connected person of the Company as Café de Coral Holdings Limited, a substantial shareholder (such term as defined in the Listing Rules) of the Company, currently holds 20% of the issued share capital of Miracle Time and Skybest. The execution of the master supply agreement constitutes a continuing connected transaction of the Company under Rule 14A.14 of the Listing Rules. Details of the transaction were disclosed in an announcement published on 26 November 2007 and a circular of the Company dated 10 December 2007.

The independent board committee comprising of all Independent Non-executive Directors has been set up to review the above continuing connected transaction and confirmed that the transaction has been entered into:

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

(2) on normal commercial terms; and

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

Pursuant to an ordinary resolution of an extraordinary general meeting held on 31 December 2007, the above continuing connected transaction was duly passed by the independent shareholders.

Save as disclosed above, the Group leases a staff quarter and a warehouse from Ms. Chan Sai Ying, spouse of Mr. Chung Wai Ping. Under the arrangements, the Group is required to pay Ms. Chan Sai Ying a monthly rent of HK$13,000 based on normal commercial terms or on terms no less favourable to the Group than terms available for independent third parties. Such transactions are exempt from the reporting, announcement or independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules and are included herein for information only.

Sufficiency of Public Float

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

Auditors

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

ON BEHALF OF THE BOARD

Chung Wai Ping
Chairman

Hong Kong
10 April 2008

Independent Auditors' Report

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

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

We have audited the financial statements of Tao Heung Holdings Limited set out on pages 35 to 103, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
10 April 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	5	**2,099,684**	1,574,381
Other income and gains	5	**59,440**	10,256
Cost of inventories consumed		**(713,512)**	(511,043)
Staff costs		**(581,580)**	(464,880)
Lease payments under operating leases in respect of land and buildings		**(138,606)**	(107,476)
Depreciation of property, plant and equipment	14	**(92,181)**	(55,197)
Recognition of prepaid land lease payments	15	**(1,092)**	(1,582)
Fair value gains/(losses) on investment properties	16	**2,700**	(300)
Other expenses		**(385,231)**	(261,926)
Finance costs	6	**(4,747)**	(5,458)
Share of profits and losses of associates		**50**	(2)
PROFIT BEFORE TAX	7	**244,925**	176,773
Tax	10	**(42,350)**	(31,034)
PROFIT FOR THE YEAR		**202,575**	145,739
Attributable to:			
Equity holders of the Company		**200,306**	138,839
Minority interests		**2,269**	6,900
		202,575	145,739
DIVIDENDS	12		
Interim		**33,000**	25,000
Special		**30,000**	—
Proposed final		**50,723**	—
		113,723	25,000
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
— Basic (HK cents)	13	**21.19**	15.85
— Diluted (HK cents)	13	**21.19**	N/A

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**408,552**	267,074
Prepaid land lease payments	15	**68,556**	72,813
Investment properties	16	**15,700**	13,000
Goodwill	17	**16,827**	3,718
Interests in associates	19	**5,071**	1,271
Deferred tax assets	20	**30,291**	22,572
Rental deposits		**44,683**	34,082
Deposits for purchases of property, plant and equipment		**15,497**	12,472
Pledged deposits	26	**15,290**	10,874
Financial assets at fair value through profit or loss	21	**32,871**	—
Total non-current assets		**653,338**	437,876
CURRENT ASSETS			
Inventories	22	**42,780**	22,969
Trade receivables	23	**14,222**	8,508
Prepayments, deposits and other receivables	24	**33,740**	30,672
Financial assets at fair value through profit or loss	21	**49,136**	15,545
Due from directors	42(b)	**2,590**	—
Due from related companies	25	**—**	9,308
Pledged deposits	26	**16,237**	9,939
Cash and cash equivalents	26	**459,486**	137,912
		618,191	234,853
Assets classified as held for sale	27	**—**	26,250
Total current assets		**618,191**	261,103
CURRENT LIABILITIES			
Trade payables	28	**87,044**	53,429
Other payables and accruals	29	**159,600**	118,905
Interest-bearing bank borrowings	30	**22,825**	46,715
Finance lease payables	31	**368**	664
Due to related companies	25	**628**	21,443
Due to an associate	19	**—**	3,234
Due to a minority shareholder of subsidiaries	32	**2,258**	1,058
Tax payable		**17,354**	14,112
Total current liabilities		**290,077**	259,560
NET CURRENT ASSETS		**328,114**	1,543
TOTAL ASSETS LESS CURRENT LIABILITIES		**981,452**	439,419

Consolidated Balance Sheet *(continued)*

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	30	**48,368**	69,401
Finance lease payables	31	**178**	386
Due to a related party	33	**—**	3,866
Provision for long service payments		**—**	249
Deferred tax liabilities	20	**1,279**	847
Total non-current liabilities		**49,825**	74,749
Net assets		**931,627**	364,670
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	34	**101,446**	1,635
Reserves	36(a)	**777,359**	362,265
Proposed final dividend	12	**50,723**	—
		929,528	363,900
Minority interests		**2,099**	770
Total equity		**931,627**	364,670

Chung Wai Ping
Director

Leung Yiu Chun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

		Attributable to equity holders of the Company										
	Notes	Issued capital HK$'000	Share premium HK$'000 (note 36)	Capital reserve HK$'000 (note 36)	Other reserve HK$'000	Share option reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2006		1,635	—	—	(1,628)	—	—	115,037	—	115,044	17,894	132,938
Exchange realignment and total income for the year recognised directly in equity		—	—	—	—	—	2,285	—	—	2,285	—	2,285
Profit for the year		—	—	—	—	—	—	138,839	—	138,839	6,900	145,739
Total income and expense for the year		—	—	—	—	—	2,285	138,839	—	141,124	6,900	148,024
Acquisition of minority interests		—	—	—	21,984	—	—	—	—	21,984	(21,984)	—
Dividend paid to a minority shareholder of subsidiaries		—	—	—	—	—	—	—	—	—	(2,040)	(2,040)
Waiver of an amount due to a shareholder		—	—	110,748	—	—	—	—	—	110,748	—	110,748
Interim 2006 dividend paid to the then shareholders of a subsidiary	12	—	—	—	—	—	—	(25,000)	—	(25,000)	—	(25,000)
At 31 December 2006 and 1 January 2007		1,635	—*	110,748*	20,356*	—*	2,285*	228,876*	—	363,900	770	364,670
Exchange realignment and total income for the year recognised directly in equity		—	—	—	—	—	11,526	—	—	11,526	—	11,526
Profit for the year		—	—	—	—	—	—	200,306	—	200,306	2,269	202,575
Total income and expense for the year		—	—	—	—	—	11,526	200,306	—	211,832	2,269	214,101
Purchase of shares of a subsidiary from the then shareholders of the subsidiary		—	—	—	780	—	—	—	—	780	—	780
Issue of shares under the placing and initial public offering	34(e)	12,400	381,920	—	—	—	—	—	—	394,320	—	394,320
Capitalisation issue	34(d)	85,965	(85,965)	—	—	—	—	—	—	—	—	—
Issue of over-allotment shares	34(f)	1,446	44,537	—	—	—	—	—	—	45,983	—	45,983
Share issue expenses		—	(29,942)	—	—	—	—	—	—	(29,942)	—	(29,942)
Equity-settled share option arrangements		—	—	—	—	5,655	—	—	—	5,655	—	5,655
Dividend paid to a minority shareholder of subsidiaries		—	—	—	—	—	—	—	—	—	(940)	(940)
Interim 2007 dividend	12	—	—	—	—	—	—	(33,000)	—	(33,000)	—	(33,000)
Special 2007 dividend	12	—	—	—	—	—	—	(30,000)	—	(30,000)	—	(30,000)
Proposed final 2007 dividend	12	—	—	—	—	—	—	(50,723)	50,723	—	—	—
At 31 December 2007		101,446	310,550*	110,748*	21,136*	5,655*	13,811*	315,459*	50,723	929,528	2,099	931,627

* *These reserve accounts comprise the consolidated reserves of HK$777,359,000 (2006: HK$362,265,000) in the consolidated balance sheet.*

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**244,925**	176,773
Adjustments for:			
Dividend income from unlisted investments	5	**(435)**	(321)
Excess over the cost of a business combination	5	**(868)**	—
Share of profits and losses of associates		**(50)**	2
Fair value losses/(gains) on investment properties		**(2,700)**	300
Interest income		**(14,802)**	(5,207)
Gain on disposal of items of property, plant and equipment, net (other than building)	5	**(300)**	(316)
Gain on disposal of investment properties	5	**—**	(600)
Gain on disposal of leasehold land and buildings	5	**(32,030)**	(1,133)
Fair value gains on financial assets at fair value through profit or loss	5	**(3,842)**	(446)
Write-off of items of property, plant and equipment	7	**5,660**	438
Depreciation		**92,181**	55,197
Finance costs	6	**4,747**	5,458
Provision/(write-back of provision) against slow-moving inventories	7	**145**	(109)
Recognition of prepaid land lease payments		**1,092**	1,582
Equity-settled share option expense	35	**5,655**	—
Share issue expenses		**6,272**	—
		305,650	231,618
Decrease/(increase) in rental deposits		**(10,601)**	749
Increase in pledged deposits		**(10,714)**	(9,939)
Decrease/(increase) in inventories		**(17,440)**	1,912
Increase in trade receivables		**(4,174)**	(4,644)
Increase in prepayments, deposits and other receivables		**(790)**	(12,077)
Decrease in balances with a shareholder		**—**	11,074
Increase in amounts due from directors		**(2,590)**	—
Decrease/(increase) in balances with related companies		**(339)**	1,590
Increase/(decrease) in an amount due to a related party		**(3,298)**	2,922
Decrease/(increase) in balances with associates		**(3,234)**	33
Increase in trade payables		**23,201**	9,678
Increase in other payables and accruals		**31,598**	15,298
Increase/(decrease) in provision for long service payments		**(249)**	613
Cash generated from operations		**307,020**	248,827
Interest paid		**(4,678)**	(5,317)
Hong Kong profits tax paid		**(36,835)**	(19,107)
Overseas taxes paid		**(5,528)**	—
Net cash inflow from operating activities		**259,979**	224,403

Consolidated Cash Flow Statement *(continued)*

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(203,795)**	(181,690)
Deposits paid for purchases of property, plant and equipment		**(3,025)**	(12,472)
Additions to prepaid land lease payments	15	**—**	(518)
Acquisition of subsidiaries	37	**(41,281)**	—
Purchase of an associate		**(1,750)**	—
Advance of a loan to an associate		**(2,000)**	—
Purchases of financial assets at fair value through profit or loss		**(62,620)**	—
Proceeds from disposal of investment properties		**—**	4,600
Proceeds from disposal of items of property, plant and equipment (other than building)		**300**	520
Proceeds from disposal of leasehold land and buildings		**63,800**	2,272
Interest received		**14,802**	5,207
Dividends received from unlisted investments		**435**	199
Net cash outflow from investing activities		**(235,134)**	(181,882)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**440,303**	—
Share issue expenses		**(36,214)**	—
New bank loan		**20,000**	88,690
Repayment of bank loans		**(64,923)**	(55,189)
Capital element of finance lease payments		**(768)**	(1,606)
Interest element of finance lease payments		**(69)**	(141)
Dividends paid		**(63,000)**	(25,000)
Dividend paid to a minority shareholder of subsidiaries		**(940)**	(2,040)
Increase in an amount due to a minority shareholder of subsidiaries		**1,200**	—
Net cash inflow from financing activities		**295,589**	4,714
NET INCREASE IN CASH AND CASH EQUIVALENTS		**320,434**	47,235
Cash and cash equivalents at beginning of year		**137,912**	90,643
Effect of foreign exchange rate changes, net		**1,140**	34
CASH AND CASH EQUIVALENTS AT END OF YEAR		**459,486**	137,912
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**198,120**	97,710
Non-pledged time deposits with original maturity of less than three months when acquired		**261,366**	—
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities		**—**	40,202
		459,486	137,912

Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**433,430**	—
CURRENT ASSETS			
Prepayments and other receivables	24	**1,789**	—
Due from a subsidiary	18	**338,444**	780
Cash and cash equivalents	26	**123,011**	—
Total current assets		**463,244**	780
CURRENT LIABILITIES			
Other payables	29	**552**	—
NET CURRENT ASSETS		**462,692**	780
Net assets		**896,122**	780
EQUITY			
Issued capital	34	**101,446**	780
Reserves	36(b)	**743,953**	—
Proposed final dividend	12	**50,723**	—
Total equity		**896,122**	780

Chung Wai Ping
Director

Leung Yiu Chun
Director

Notes to Financial Statements

31 December 2007

1. Corporate Information and Group Reorganisation

Tao Heung Holdings Limited was incorporated in the Cayman Islands on 29 December 2005 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a group reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the initial public offering of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 4 June 2007. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in the prospectus of the Company dated 15 June 2007 (the "Prospectus").

The Company's shares have been listed on the Stock Exchange since 29 June 2007.

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

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

2.1 Basis of Presentation and Consolidation

Basis of presentation

As a result of the Group Reorganisation which involved companies under common control, the Group is regarded and accounted for as a continuing group. Accordingly, the consolidated financial statements have been prepared in accordance with the principles of merger accounting as set out in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as if the Group Reorganisation had been completed as of 1 January 2006. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of acquisition of the subsidiaries.

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 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. Assets held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.1 Basis of Presentation and Consolidation *(continued)*

Basis of consolidation *(continued)*

The acquisition of subsidiaries not involving entities under common control during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

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

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
HK(IFRIC)-Int 8	*Scope of HKFRS 2*
HK(IFRIC)-Int 9	*Reassessment of Embedded Derivatives*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*

Except for HKAS 1 Amendment and HKFRS 7 giving rise to additional disclosures, the adoption of HK(IFRIC)-Int 8, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 10 has had no material effect on the Group's financial statements for the year ended 31 December 2007.

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

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements — Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are set out in note 44 to the financial statements.

2.3 Impact of 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 3 (Revised)	*Business Combinations*[5]
HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[5]
HKFRS 2 Amendments	*Share-based Payment — Vesting Conditions and Cancellation*[1]
HK(IFRIC)-Int 11	*HKFRS 2 — Group and Treasury Share Transactions*[2]
HK(IFRIC)-Int 12	*Service Concession Arrangements*[4]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 14	*HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*[4]

[1] *Effective for annual periods beginning on or after 1 January 2009*
[2] *Effective for annual periods beginning on or after 1 March 2007*
[3] *Effective for annual periods beginning on or after 1 July 2008*
[4] *Effective for annual periods beginning on or after 1 January 2008*
[5] *Effective for annual periods beginning on or after 1 July 2009*

HKFRS 3 (Revised) requires (a) for partial acquisitions, non-controlling interests shall be measured either as their proportionate interest in the net identifiable assets or at fair value; (b) for step acquisitions, goodwill shall be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired; (c) the recognition of acquisition-related costs as expenses, rather than included in goodwill and (d) the recognition of contingent consideration measured at fair value at the acquisition date.

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

HKAS 1 has been revised to separate owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards *(continued)*

HKAS 27 (Revised) replaces the term "minority interest" with "non-controlling interest" and requires changes in a parent's ownership interest in a subsidiary company that do not result in a loss of control to be accounted for as equity transactions.

HKFRS 2 amendment clarifies that vesting conditions are service conditions and performance conditions only and that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group's current policy for share-based payment transactions align with the requirements of the new interpretation, the new interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that except for the above new and revised HKFRSs, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Subsidiaries

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

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

Joint ventures

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

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Associates

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

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

Goodwill

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

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

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

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

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

Excess over the cost of business combinations

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

2.4 Summary of Significant Accounting Policies *(continued)*

Impairment of non-financial assets other than goodwill

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

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

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

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

Buildings	Over the shorter of lease term and 2% – 5%
Leasehold improvements	10% – 33⅓%
Furniture, fixtures and equipment	20% – 33⅓%
Motor vehicles	20% – 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Investment properties

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

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

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

Non-current assets held for sale

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

Non-current assets classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

Leases

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

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss and loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

When the fair value of the hybrid investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment, or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments or financial assets are stated at cost less any impairment losses.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

2.4 Summary of Significant Accounting Policies *(continued)*

Investments and other financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.4 Summary of Significant Accounting Policies *(continued)*

Impairment of financial assets *(continued)*

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, interest-bearing loans and borrowings and amounts due to related companies are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

2.4 Summary of Significant Accounting Policies *(continued)*

Derecognition of financial liabilities

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

2.4 Summary of Significant Accounting Policies *(continued)*

Income tax *(continued)*

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

Revenue recognition

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Revenue recognition *(continued)*

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

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

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

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

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

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 35 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Share-based payment transactions *(continued)*

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

Other employee benefits

Retirement benefits scheme

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

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

Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Dividends

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Foreign currencies

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

The functional currency of the Company's overseas subsidiaries is currency other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

3. Significant Accounting Judgements and Estimates

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

Judgements

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

Operating lease commitments — Group as lessor

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

3. Significant Accounting Judgements and Estimates *(continued)*

Judgements *(continued)*

Impairment of assets

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

Estimation uncertainty

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

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

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

Provision against slow-moving inventories

Provision against slow-moving inventories is made based on the aging and estimated net realisable value of inventories. The assessment of the provision amount required involves management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying value of inventories and the provision charged/written back in the period in which such estimate has been changed.

Impairment of goodwill

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

3. Significant Accounting Judgements and Estimates *(continued)*

Estimation uncertainty *(continued)*

Estimation of fair value of investment properties

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

Impairment allowances on loans and receivables

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

Deferred tax assets

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

4. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. The Group's customer-based geographical segments are Hong Kong and Mainland China.

Since over 90% of the Group's revenue and assets relate to the restaurant segment which engages in the provision of food catering services through a chain of restaurants, no further analysis on business segment is presented.

4. Segment Information *(continued)*

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006.

	Year ended 31 December 2007		
	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Revenue from external customers	1,808,275	291,409	2,099,684
Segment results	238,572	11,050	249,622
Finance costs			(4,747)
Share of profits and losses of associates	50		50
Profit before tax			244,925
Tax			(42,350)
Profit for the year			202,575
Assets and liabilities			
Segment assets	890,030	346,137	1,236,167
Interests in associates	5,071	—	5,071
Other unallocated assets			30,291
Total assets			1,271,529
Segment liabilities	189,625	59,905	249,530
Other unallocated liabilities			90,372
Total liabilities			339,902
Other segment information:			
Capital expenditure	84,784	121,119	205,903
Depreciation	70,882	21,299	92,181
Recognition of prepaid land lease payments	889	203	1,092
Fair value gains on investment properties	2,700	—	2,700
Write-off of items of property, plant and equipment	1,025	4,635	5,660
Provision against slow-moving inventories	145	—	145
Fair value gains on financial assets at fair value through profit or loss	3,842	—	3,842
Gain on disposal of leasehold land and buildings	32,030	—	32,030

4. Segment Information *(continued)*

	Year ended 31 December 2006		
	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Revenue from external customers	1,559,079	15,302	1,574,381
Segment results	186,679	(4,446)	182,233
Finance costs			(5,458)
Share of losses of associates	(2)		(2)
Profit before tax			176,773
Tax			(31,034)
Profit for the year			145,739
Assets and liabilities			
Segment assets	540,520	134,616	675,136
Interests in associates	1,271	—	1,271
Other unallocated assets			22,572
Total assets			698,979
Segment liabilities	185,957	16,227	202,184
Other unallocated liabilities			132,125
Total liabilities			334,309
Other segment information:			
Capital expenditure	88,073	96,833	184,906
Depreciation	54,650	547	55,197
Recognition of prepaid land lease payments	1,006	576	1,582
Fair value losses on investment properties	(300)	—	(300)
Write-off of items of property, plant and equipment	438	—	438
Write-back of provision against slow-moving inventories	(109)	—	(109)
Fair value gains on financial assets at fair value through profit or loss	446	—	446
Gain on disposal of leasehold land and buildings	1,133	—	1,133

5. Revenue, Other Income and Gains

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

	2007 HK$'000	2006 HK$'000
Revenue		
Restaurant operations	**2,066,977**	1,560,132
Sale of food	**32,707**	14,249
	2,099,684	1,574,381
Other income and gains		
Bank interest income	**14,802**	4,734
Dividend income from unlisted investments	**435**	321
Gross rental income from investment properties	**1,252**	1,433
Interest income from an amount due from a shareholder	**—**	473
Sponsorship income	**2,686**	359
Excess over the cost of a business combination	**868**	—
Fair value gains on financial assets at fair value through profit or loss	**3,842**	446
Gain on disposal of investment properties	**—**	600
Gain on disposal of leasehold land and buildings	**32,030**	1,133
Gain on disposal of items of property, plant and equipment, net (other than buildings)	**300**	316
Others	**3,225**	441
	59,440	10,256

6. Finance Costs

	Group	
	2007 HK$'000	2006 HK$'000
Interest on bank loans wholly repayable		
— Within five years	**5,846**	2,844
— Beyond five years	**40**	3,063
Interest on finance leases	**69**	141
Total interest expense on financial liabilities not at fair value through profit or loss	**5,955**	6,048
Less: Interest capitalised	**(1,208)**	(590)
	4,747	5,458

7. Profit Before Tax

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

	2007 HK$'000	2006 HK$'000
Gross rental income from investment properties	**(1,252)**	(1,433)
Less: Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	**12**	94
Net rental income	**(1,240)**	(1,339)
Employee benefits expense (including directors' remuneration (note 8)):		
Salaries and bonuses	**547,910**	444,133
Retirement benefits scheme contributions (defined contribution schemes)	**28,015**	20,747
Equity-settled share option expenses	**5,655**	—
	581,580	464,880
Lease payments under operating leases in respect of land and buildings:		
Minimum lease payments	**131,864**	100,892
Contingent rents	**6,742**	6,584
	138,606	107,476
Auditors' remuneration	**3,031**	1,716
Foreign exchange differences, net	**(419)**	83
Write-off of items of property, plant and equipment	**5,660**	438
Provision/(write-back of provision) against slow-moving inventories	**145**	(109)

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2007 HK$'000	2006 HK$'000
Fees	**360**	—
Other emoluments:		
Salaries	**2,318**	882
Discretionary bonuses	**34**	98
Employee share option benefits	**608**	—
Retirement benefits scheme contributions (defined contribution schemes)	**58**	21
	3,378	1,001

8. Directors' Remuneration *(continued)*

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 35 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

2007	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors:						
Mr. Chung Wai Ping	—	230	—	—	6	236
Mr. Chung Ming Fat	—	348	—	—	12	360
Mr. Wong Ka Wing*	—	373	—	—	10	383
Mr. Leung Yiu Chun*	—	490	12	304	10	816
Ms. Wong Fun Ching*	—	450	11	304	10	775
Mr. Ho Yuen Wah*	—	427	11	—	10	448
	—	2,318	34	608	58	3,018
Non-executive directors:						
Mr. Fong Siu Kwong	60	—	—	—	—	60
Mr. Chan Yue Kwong, Michael	60	—	—	—	—	60
	120	—	—	—	—	120
Independent non-executive directors:						
Mr. Li Tze Leung	60	—	—	—	—	60
Professor Chan Chi Fai, Andrew	60	—	—	—	—	60
Mr. Mak Hing Keung, Thomas	60	—	—	—	—	60
Mr. Ng Yat Cheung	60	—	—	—	—	60
	240	—	—	—	—	240
	360	2,318	34	608	58	3,378

8. Directors' Remuneration *(continued)*

2006	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors:						
Mr. Chung Wai Ping	—	441	—	—	9	450
Mr. Chung Ming Fat	—	441	98	—	12	551
Mr. Wong Ka Wing*	—	—	—	—	—	—
Mr. Leung Yiu Chun*	—	—	—	—	—	—
Ms. Wong Fun Ching*	—	—	—	—	—	—
Mr. Ho Yuen Wah*	—	—	—	—	—	—
	—	882	98	—	21	1,001
Non-executive directors:						
Mr. Fong Siu Kwong	—	—	—	—	—	—
Mr. Chan Yue Kwong, Michael	—	—	—	—	—	—
	—	—	—	—	—	—
Independent non-executive directors:						
Mr. Li Tze Leung	—	—	—	—	—	—
Professor Chan Chi Fai, Andrew	—	—	—	—	—	—
Mr. Mak Hing Keung, Thomas	—	—	—	—	—	—
Mr. Ng Yat Cheung	—	—	—	—	—	—
	—	—	—	—	—	—
	—	882	98	—	21	1,001

* *Messrs. Wong Ka Wing, Leung Yiu Chun and Ho Yuen Wah and Ms. Wong Fun Ching were appointed as executive directors of the Company in March 2007. Prior to their appointment, they were employees of the Group and their respective remuneration received from the Group were not included in directors' remuneration since the services provided by them were not in the capacity of a director of the Group.*

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

9. Five Highest Paid Employees

The five highest paid employees, during the year included three (2006: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2006: four) non-director, highest paid employees for the year are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Salaries	**1,061**	2,105
Discretionary bonuses	**229**	409
Employee share option benefits	**95**	—
Retirement benefits scheme contributions (defined contribution schemes)	**23**	48
	1,408	2,562

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

	Number of employees	
	2007	2006
Nil to HK$1,000,000	**2**	4

During the year, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 35 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

10. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) 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, based on existing legislation, interpretations and practices in respect thereof.

	2007	2006
	HK$'000	HK$'000
Current — Hong Kong		
Charge for the year	**35,222**	30,861
Under/(over)provision in prior years	**(385)**	51
Current — Elsewhere	**9,868**	—
Deferred (note 20)	**(2,355)**	122
Total tax charge for the year	**42,350**	31,034

10. Tax *(continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax charge at the Group's effective tax rate, is as follows:

	2007		2006	
	HK$'000	**%**	HK$'000	%
Profit before tax	**244,925**		176,773	
Tax at the Hong Kong statutory tax rate	**42,862**	**17.5**	30,935	17.5
Difference in tax rates applied for specific provinces in Mainland China	**(910)**		—	
Adjustments in respect of current tax of previous years	**(385)**		51	
Profits attributable to associates	**(9)**		—	
Income not subject to tax	**(9,809)**		(1,072)	
Expenses not deductible for tax	**7,928**		834	
Tax losses utilised from previous periods	**(31)**		21	
Tax losses not recognised	**2,428**		210	
Others	**276**		55	
Tax charge at the Group's effective rate	**42,350**	**17.3**	31,034	17.6

No provision for tax is required for the associate as no assessable profits were earned by the associates during the year. The share of tax credit attributable to associates in the prior year amounting to HK$280 are included in "Share of profits and losses of associates" on the face of the consolidated income statement.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law") was approved, and it became effective on 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. This change in the income tax rate will directly impact the Group's effective tax rate prospectively from 1 January 2008. According to HKAS 12, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The change in the corporate income tax rate has had no significant impact on the results and financial position of the Group for the year ended 31 December 2007.

11. Profit Attributable to Equity Holders of the Company

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2007 includes a profit of approximately HK$113,944,000 (2006: Nil) which has been dealt with in the financial statements of the Company (note 36(b)).

12. Dividends

	2007 HK$'000	2006 HK$'000
Interim — HK3.25 cents (2006: HK$2,778) per ordinary share	**33,000**	25,000*
Special — HK2.96 cents (2006: Nil) per ordinary share	**30,000**	—
	63,000	25,000
Proposed final — HK5.00 cents (2006: Nil) per ordinary share	**50,723**	—
	113,723	25,000

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

* *No dividend has been paid or declared by the Company since its date of incorporation and up to 31 December 2006. The amount represented dividend paid by Tensel Investment Limited ("Tensel"), a subsidiary which was the then holding company of all the other subsidiaries of the Group (other than Sky Cheer Group Limited), to its former shareholders.*

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK$200,306,000 (2006: HK$138,839,000) and the weighted average number of 945,085,918 (2006: 876,000,000) ordinary shares deemed to have been in issue during the year.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2006 includes the pro forma issued share capital of the Company of 876,000,000 shares, comprising:

(i) the 7,800,000 shares of the Company allotted, issued and fully paid at par on 21 March 2007 (note 34(b));

(ii) the 8,546,695 shares issued as consideration for the acquisition of Tensel on 4 June 2007 (note 34(c)); and

(iii) the capitalisation issue of 859,653,305 shares (note 34(d)).

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2007 in addition to the aforementioned 876,000,000 ordinary shares includes:

(i) the weighted average of 124,000,000 shares issued upon the listing of the Company's shares on the Stock Exchange on 29 June 2007 (note 34(e)); and

(ii) the weighted average of 14,460,000 shares issued pursuant to the exercise of over-allotment option on 19 July 2007 (note 34(f)).

Diluted earnings per share amounts equal to basic earnings per share amounts because the employee share options had an anti-dilutive effect on the basic earnings per share for the year and were accordingly ignored in the calculation of diluted earnings per share. A diluted earnings per share amount for the year ended 31 December 2006 had not been disclosed as no diluting events existed during that year.

14. Property, Plant and Equipment

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2007						
Cost:						
At 1 January 2007	61,637	229,332	117,250	6,688	94,572	509,479
Acquisition of subsidiaries (note 37)	—	17,723	8,421	771	—	26,915
Additions	3,008	84,131	39,216	4,362	75,186	205,903
Disposals	(2,899)	—	—	(630)	—	(3,529)
Write-off	—	(31,208)	(8,843)	—	—	(40,051)
Transfers	84,700	60,230	30,093	—	(175,023)	—
Exchange realignment	—	2,450	1,229	46	5,265	8,990
At 31 December 2007	146,446	362,658	187,366	11,237	—	707,707
Accumulated depreciation:						
At 1 January 2007	21,198	144,712	72,666	3,829	—	242,405
Provided during the year	1,969	59,994	28,205	2,013	—	92,181
Disposals	(1,034)	—	—	(630)	—	(1,664)
Write-off	—	(29,271)	(5,120)	—	—	(34,391)
Exchange realignment	29	424	165	6	—	624
At 31 December 2007	22,162	175,859	95,916	5,218	—	299,155
Net book value:						
At 31 December 2007	124,284	186,799	91,450	6,019	—	408,552

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

Group *(continued)*

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2006						
Cost:						
At 1 January 2006	76,429	209,088	103,584	6,766	6,478	402,345
Additions	—	64,204	30,874	1,392	87,918	184,388
Disposals	(697)	—	—	(1,470)	—	(2,167)
Write-off	—	(43,960)	(17,208)	—	—	(61,168)
Reclassified to assets held for sale (note 27)	(14,095)	—	—	—	—	(14,095)
Exchange realignment	—	—	—	—	176	176
At 31 December 2006	61,637	229,332	117,250	6,688	94,572	509,479
Accumulated depreciation:						
At 1 January 2006	23,327	154,930	70,716	3,565	—	252,538
Provided during the year	1,221	33,626	18,820	1,530	—	55,197
Disposals	(263)	—	—	(1,266)	—	(1,529)
Write-off	—	(43,855)	(16,875)	—	—	(60,730)
Reclassified to assets held for sale (note 27)	(3,087)	—	—	—	—	(3,087)
Exchange realignment	—	11	5	—	—	16
At 31 December 2006	21,198	144,712	72,666	3,829	—	242,405
Net book value:						
At 31 December 2006	40,439	84,620	44,584	2,859	94,572	267,074

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

Group *(continued)*

The Group's land and buildings, included above at cost, were valued at HK$264,500,000 as at 31 March 2007 in the Prospectus. Had the Group's buildings been included in these financial statements at such valuation amount throughout the year ended 31 December 2007, an additional depreciation charge of HK$834,000 would have been charged to the consolidated income statement for the year ended 31 December 2007.

The net book values of the Group's property, plant and equipment held under finance leases included in the total amount of furniture, fixtures and equipment and motor vehicles amounted to HK$307,000 (2006: HK$1,164,000).

As at 31 December 2007, all of the leasehold land (note 15) and buildings with a total carrying value of HK$100,480,000 (2006: HK$107,863,000) situated in Hong Kong were pledged to secure the banking facilities granted to the Group (note 30).

15. Prepaid Land Lease Payments

	2007 HK$'000	2006 HK$'000
Carrying amount at 1 January	74,014	90,848
Additions	—	518
Recognised during the year	(1,092)	(1,582)
Disposals	(3,655)	(705)
Reclassified to assets held for sale (note 27)	—	(15,242)
Exchange realignment	326	177
Carrying amount at 31 December	69,593	74,014
Current portion included in prepayments, deposits and other receivables (note 24)	(1,037)	(1,201)
Non-current portion	68,556	72,813

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

	2007 HK$'000	2006 HK$'000
Situated in Hong Kong		
— Long term leases	28,878	28,913
— Medium term leases	33,967	38,511
Situated in Mainland China under a medium term lease	6,748	6,590
	69,593	74,014

16. Investment Properties

	2007 HK$'000	2006 HK$'000
Carrying amount at 1 January	**13,000**	17,300
Disposal	**—**	(4,000)
Net profit/(loss) from a fair value adjustment	**2,700**	(300)
Carrying amount at 31 December	**15,700**	13,000

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

	2007 HK$'000	2006 HK$'000
Long term leases	**5,400**	4,400
Medium term leases	**10,300**	8,600
	15,700	13,000

The Group's investment properties were revalued on 31 December 2007 by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, at HK$15,700,000 on an open market, existing use basis. The investment properties were leased to third parties under operating lease arrangements, further details of which are included in note 40(a) to the financial statements.

At 31 December 2007, the Group's investment properties with a total carrying amount of HK$14,700,000 (2006: HK$13,000,000) were pledged to secure banking facilities granted to the Group (note 30).

17. Goodwill

	2007 HK$'000	2006 HK$'000
Cost at 1 January	**3,718**	3,718
Acquisition of subsidiaries (note 37)	**13,109**	—
Cost and carrying amount at 31 December	**16,827**	3,718

Impairment testing of goodwill

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

- Restaurant operations
- Property investment

The carrying amount of goodwill allocated to each of the Cash-generating Units is as follows:

	2007 HK$'000	2006 HK$'000
Restaurant operations	**16,766**	3,657
Property investment	**61**	61
	16,827	3,718

The recoverable amounts of the Cash-generating Units have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 10% (2006: 10%), and cash flows beyond the five-year period are extrapolated using an average growth rate of 4% (2006: 4%).

Key assumptions were used in the value in use calculation of the Cash-generating Units for the years ended 31 December 2007 and 2006. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

18. Interests in Subsidiaries

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**428,382**	—
Capital contribution in respect of employee share-based compensation	**5,048**	—
	433,430	—

The amount due from a subsidiary included in the Company's current assets of approximately HK$338,444,000 (2006: HK$780,000) is unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2007	2006	Principal activities
Directly held:					
Sky Cheer Group Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	**100%**	—	Investment holding
Indirectly held:					
Best Harvest Food Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Production, sale and distribution of products related to restaurant operations
Elite Sky International Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Great Sky International Enterprise Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Castle Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Fine International Industrial Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Great Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Hero Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Joy Enterprise Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Operation of a food take-away counter

18. Interests in Subsidiaries *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2007	2006	Principal activities
Sky Leader Industrial Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Triumph International Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Well International Investment Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Skyford Enterprises Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Skyland Investment Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Skymart Limited	Hong Kong	Ordinary HK$10,000	**100%**	100%	Investment holding
Skywell Enterprise Limited	Hong Kong	Ordinary HK$500,000	**100%**	100%	Restaurant operations and provision of food catering services
Starway International Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Tao Heung Seafood Hotpot Restaurant Limited	Hong Kong	Ordinary HK$38,000	**100%**	100%	Provision of management and promotion services, trading of food and other operating items to restaurants and property investment
Tensel Investment Limited	Hong Kong	Ordinary HK$1,000,000	**100%**	100%	Investment holding
Top Eagle Development Limited	Hong Kong	Ordinary HK$40,000	**100%**	100%	Restaurant operations and provision of food catering services
Triumph Sky Holdings Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Winsky Enterprise Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services

18. Interests in Subsidiaries *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2007	2006	Principal activities
Sky Earth Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Skyera International Holdings Limited	Hong Kong	Ordinary HK$10,000	**100%**	100%	Property investment
Tao Heung Management Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Property investment
Tao Heung Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Provision of human resources support and operation of a museum for food-cultural development
東莞萬好食品有限公司*@	People's Republic of China ("PRC")/ Mainland China	HK$154,100,000	**100%**	100%	Production, sale and distribution of food products
深圳領鮮稻香飲食有限公司*@	PRC/Mainland China	HK$24,000,000	**100%**	100%	Restaurant operations and provision of food catering services
Basic Tech Limited ("Basic Tech")	Hong Kong	Ordinary HK$28,000	**100%**	100%	Property investment
Huge Sky Investments Limited ("Huge Sky")	Hong Kong	Ordinary HK$291,000	**100%**	100%	Property investment
Jetfat Investments Limited ("Jetfat")	Hong Kong	Ordinary HK$291,000	**100%**	100%	Restaurant operations and provision of food catering services
Keen Port International Limited ("Keen Port")	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Nature Lion Limited ("Nature Lion")	Hong Kong	Ordinary HK$250,000	**100%**	100%	Investment holding, property investment and sale and distribution of food products and operating items related to restaurant operations
Poly Sky Investment Limited ("Poly Sky")	Hong Kong	Ordinary HK$48,000	**100%**	100%	Restaurant operations and provision of food catering services
Skyking Restaurant Limited ("Skyking")	Hong Kong	Ordinary HK$71,000	**100%**	100%	Restaurant operations and provision of food catering services

18. Interests in Subsidiaries *(continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered paid-up capital	Percentage of equity attributable to the Company 2007	2006	Principal activities
Tin Shing Company Limited ("Tin Shing")	Hong Kong	Ordinary HK$67,500	**100%**	100%	Restaurant operations and provision of food catering services
Miracle Time Enterprise Limited	Hong Kong	Ordinary HK$1,000,000	**80%**	80%	Restaurant operations and provision of food catering services
Skybest International Investment Enterprise Limited	Hong Kong	Ordinary HK$10,000	**80%**	80%	Restaurant operations and provision of food catering services
Glory Rainbow International Trading Limited ("Glory Rainbow")#	Hong Kong	Ordinary HK$2	**100%**	—	Investment holding
Loyal Sky Holdings Limited ("Loyal Sky")#	Hong Kong	Ordinary HK$2	**100%**	—	Investment holding
Sky Rich (China) Limited ("Sky Rich")#	Hong Kong	Ordinary HK$2	**100%**	—	Investment holding
Skymark Asia Limited ("Skymark")#	Hong Kong	Ordinary HK$2	**100%**	—	Investment holding
深圳友誼稻香海鮮火鍋酒家***#@	PRC/Mainland China	HK$7,000,000	**100%**	—	Restaurant operations and provision of food catering services
迎海漁港飲食(深圳)有限公司*#@	PRC/Mainland China	HK$3,000,000	**100%**	—	Restaurant operations and provision of food catering services
廣州市新港稻香海鮮火鍋酒家有限公司 ("新港")**#@	PRC/Mainland China	HK$8,250,000	**97%**	—	Restaurant operations and provision of food catering services
廣州市僑光稻香海鮮火鍋酒家有限公司 ("僑光")**#@	PRC/Mainland China	HK$8,250,000	**97%**	—	Restaurant operations and provision of food catering services

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

* *These companies are wholly-foreign-owned enterprises established in the PRC.*

** *These companies are Sino-foreign equity joint ventures established in the PRC.*

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

These subsidiaries were acquired by the Group on 1 January 2007.

18. Interests in Subsidiaries *(continued)*

On 1 January 2007, the Group acquired Glory Rainbow, Loyal Sky, Skymark and Sky Rich together with their subsidiaries (collectively, the "PRC Group") from Messrs. Chung Wai Ping and Chung Ming Fat, the directors and shareholders, of the Company. Further details of the acquisition are included in note 37 to the financial statements.

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

19. Interests in Associates

	Group	
	2007	2006
	HK$'000	HK$'000
Share of net assets	**1,694**	1,301
Goodwill on acquisition	**1,529**	122
	3,223	1,423
Loan to an associate	**2,000**	—
Provision for impairment	**(152)**	(152)
	5,071	1,271

The loan to an associate is unsecured, interest-free and is not repayable on or before 31 December 2010.

The amount due to another associate included in the Group's current liabilities in the prior year was unsecured, interest-free and fully repaid during the year.

Particulars of the associates are as follows:

Company name	Particulars of issued share held	Place of incorporation	Percentage of ownership interest attributable to the Group **2007**	2006	Principal activities
Tin Park Limited	Ordinary shares of HK$1 each	Hong Kong	**39%**	39%	Dormant
World Wider International Limited	Ordinary shares of HK$1 each	Hong Kong	**39%**	39%	Dormant
Tai Cheong Holdings Group Limited* ("Tai Cheong")	Ordinary shares of US$1 each	British Virgin Islands	**20%**	—	Production and retail of bakery

* *Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.*

On 14 November 2007, the Group entered into a sale and purchase agreement with independent third parties to purchase a 20% equity interest in Tai Cheong for a consideration of HK$1,750,000. The acquisition consideration is contingent on a specified level of earnings, pending finalisation, of Tai Cheong together with its subsidiaries being achieved for the year ended 31 December 2007 in accordance with the terms of the agreement.

19. Interests in Associates *(continued)*

All associates were indirectly held by the Company.

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

	2007 HK$'000	2006 HK$'000
Assets	**14,914**	3,368
Liabilities	**(9,555)**	(1)
Revenue	**14,274**	7
Profit/(loss)	**1,137**	(5)

20. Deferred Tax

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

Deferred tax assets

Group

	Accelerated tax allowances HK$'000	**Losses available for offset against future taxable profits** HK$'000	**Total** HK$'000
At 1 January 2006	21,934	1,988	23,922
Deferred tax charged to the income statement during the year (note 10)	(225)	(890)	(1,115)
Gross deferred tax assets at 31 December 2006 and 1 January 2007	21,709	1,098	22,807
Acquisition of subsidiaries (note 37)	4,313	—	4,313
Deferred tax credited/(charged) to the income statement during the year (note 10)	(132)	4,613	4,481
Exchange differences	549	70	619
Gross deferred tax assets at 31 December 2007	26,439	5,781	32,220

20. Deferred Tax *(continued)*

Deferred tax liabilities

	Revaluation of investment properties HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Total HK$'000
At 1 January 2006	108	1,967	2,075
Deferred tax credited to the income statement during the year (note 10)	(52)	(941)	(993)
Gross deferred tax liabilities at 31 December 2006 and 1 January 2007	56	1,026	1,082
Deferred tax charged to the income statement during the year (note 10)	297	1,829	2,126
Gross deferred tax liabilities at 31 December 2007	353	2,855	3,208

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

	2007 HK$'000	2006 HK$'000
Net deferred tax assets recognised in the consolidated balance sheet	**30,291**	22,572
Net deferred tax liabilities recognised in the consolidated balance sheet	**(1,279)**	(847)
	29,012	21,725

The Group has estimated tax losses arising in Hong Kong of approximately HK$24,818,000 (2006: approximately HK$11,121,000) that are available indefinitely for offsetting against future taxable profits of those companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

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

21. Financial Assets at Fair Value Through Profit or Loss

	Group	
	2007	2006
	HK$'000	HK$'000
Non-current		
Unlisted investment at fair value	**32,871**	—
Current		
Unlisted investment funds in Hong Kong,		
— at fair value	**10,436**	9,545
— at cost	**6,000**	6,000
Unlisted investment at fair value	**32,700**	—
	49,136	15,545

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

The fair values of the unlisted investments are based on the quoted value available by the issuers at the balance sheet date.

The unlisted investment fund with a carrying amount of HK$6,000,000 is stated at cost because the range of reasonable fair value estimates is so significant that the directors are of the opinion that the fair value cannot be measured reliably.

At 31 December 2007, all of the Group's unlisted investments with a total carrying amount of HK$82,007,000 (2006: HK$15,545,000) were pledged to secure banking facilities granted to the Group (note 30).

22. Inventories

	Group	
	2007	2006
	HK$'000	HK$'000
Food and beverages, and other operating items for restaurant operations	**42,780**	22,969

23. Trade Receivables

The Group's trading terms with its customers are mainly on cash and credit card settlement. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group	
	2007	2006
	HK$'000	HK$'000
Neither past due nor impaired	**10,549**	8,218
Less than 1 month past due	**1,304**	283
1 to 3 months past due	**1,224**	—
Over 3 months past due	**1,145**	7
	14,222	8,508

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

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

24. Prepayments, Deposits and Other Receivables

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**14,112**	9,381	**952**	—
Prepaid land lease payments (note 15)	**1,037**	1,201	**—**	—
Deposits and other receivables	**18,591**	20,090	**837**	—
	33,740	30,672	**1,789**	—

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

25. Balances with Related Companies

Particulars of the amounts due from related companies, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

	31 December 2007 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2007 HK$'000
Glory Rainbow*	—	23	23
Loyal Sky*	—	276	276
Sky Rich*	—	3,024	3,024
僑光*	—	2,148	2,148
新港*	—	3,837	3,837
	—		9,308

* *On 1 January 2007, the Group acquired (i) 100% equity interest in Glory Rainbow, Loyal Sky and Sky Rich; and (ii) 97% equity interest in 僑光 and 新港, details of which are set out in note 37 to the financial statements.*

Messrs. Chung Wai Ping and Chung Ming Fat, directors of the Company, are also the directors and/or shareholders of the above related companies prior to the aforementioned acquisition.

The amount due to a related company is unsecured, interest-free and has no fixed terms of repayment.

26. Cash and Cash Equivalents and Pledged Time Deposits

	Group		Company	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Cash and bank balances	198,120	97,710	645	—
Time deposits	292,893	61,015	122,366	—
	491,013	158,725	123,011	—
Less: Pledged deposits with original maturity over 3 months but within 1 year for short term bank borrowings	(16,237)	(9,939)	—	—
Pledged deposits for a long term bank borrowing	(15,290)	—	—	—
Pledged deposits with original maturity over 1 year for banking facilities	—	(10,874)	—	—
	459,486	137,912	123,011	—

26. Cash and Cash Equivalents and Pledged Time Deposits *(continued)*

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$46,501,000 (2006: HK$5,481,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

27. Assets Classified as Held for Sale

On 25 May 2006, the Group entered into a provisional agreement with an independent third party to dispose of certain of its leasehold land and buildings situated in Hong Kong for a consideration of HK$57,000,000. The transaction was completed on 5 June 2007, resulting in a gain on disposal before related expenses of approximately HK$30,785,000. The carrying amounts of these leasehold land (included under prepaid land lease payments) and buildings (included under property, plant and equipment) classified as held for sale were HK$15,242,000 (note 15) and HK$11,008,000 (note 14), respectively.

At 31 December 2006, the assets classified as held for sale were pledged to secure the banking facilities granted to the Group.

28. Trade Payables

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within 1 month	**78,812**	52,587
1 to 2 months	**2,092**	327
2 to 3 months	**675**	16
Over 3 months	**5,465**	499
	87,044	53,429

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

29. Other Payables and Accruals

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**18,503**	20,352	**5**	—
Accruals	**141,097**	98,553	**547**	—
	159,600	118,905	**552**	—

Other payables are non-interest-bearing.

30. Interest-bearing Bank Borrowings

	2007			2006		
Group	**Effective interest rate (%)**	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
— Bank loans, secured	**4.25–7.00**	**2008**	**21,115**	4.65–7.00	2007	46,715
— Bank loans, unsecured	**5.25–5.75**	**2008**	**1,710**	—	—	—
			22,825			46,715
Non-current						
— Bank loans, secured	**4.25–6.25**	**2009–2020**	**48,368**	2.70–5.50	2008–2020	69,401
			71,193			116,116
Analysed into:						
Bank loans repayable						
Within one year			**22,825**			46,715
In the second year			**19,027**			22,098
In the third to fifth years, inclusive			**28,837**			45,828
Beyond five years			**504**			1,475
			71,193			116,116

Notes:

At 31 December 2007, the Group's bank loans and facilities are secured by:

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

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

(iii) the pledge of certain of the Group's unlisted investments; and

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

31. Finance Lease Payables

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

At 31 December 2007, the Group's total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		**Present value of minimum lease payments**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**402**	725	**368**	664
In the second year	**167**	323	**154**	298
In the third to fifth years, inclusive	**27**	92	**24**	88
Total minimum finance lease payments	**596**	1,140	**546**	1,050
Future finance charges	**(50)**	(90)		
Total net finance lease payables	**546**	1,050		
Portion classified as current liabilities	**(368)**	(664)		
Non-current portion	**178**	386		

The above finance leases are denominated in Hong Kong dollars and bear interest at rates ranging from 1.88% to 5.4% per annum during the year.

32. Due to a Minority Shareholder of Subsidiaries

The amount due to a minority shareholder of subsidiaries is unsecured, interest-free and has no fixed terms of repayment.

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

33. Due to a Related Party

The amount due to a related party was unsecured, interest-free and fully repaid during the year. The related party is a close family member of a director of the Company.

34. Share Capital

	Company	
	2007	**2006**
	HK$'000	HK$'000
Authorised:		
23,400,000,000 (2006: 300,000,000) ordinary shares of HK$0.10 each (2006: US$1.00 each)	**2,340,000**	2,340,000*
Issued and fully paid:		
1,014,460,000 (2006: 100,000) ordinary shares of HK$0.10 each (2006: US$1.00 each)	**101,446**	780*

* *Amounts denominated in US$ have been translated into HK$ at US$1.00: HK$7.80.*

The following changes in the authorised and issued share capital of the Company took place during the period from 1 January 2006 to 31 December 2007:

	Notes	Number of ordinary shares	Nominal value of ordinary shares HK$'000
Authorised:			
At 1 January 2006, 31 December 2006 and 1 January 2007	(a)	300,000,000	2,340,000
Cancellation	(b)	(300,000,000)	(2,340,000)
Increase in authorised share capital	(b)	23,400,000,000	2,340,000
As at 31 December 2007		23,400,000,000	2,340,000

34. Share Capital *(continued)*

	Notes	Number of ordinary shares	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
Issued:					
Allotted and issued upon incorporation and at 31 December 2006	(a)	100,000	780	—	780
Allotted, issued and fully paid	(b)	7,800,000	780	—	780
Cancellation of shares	(b)	(100,000)	(780)	—	(780)
Shares issued for acquisition of Tensel	(c)	8,546,695	855	—	855
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of the new shares to the public	(d)	859,653,305	—	—	—
Pro forma share capital at 31 December 2006		876,000,000	1,635	—	1,635
New issue of shares	(e)	124,000,000	12,400	381,920	394,320
Capitalisation of the share premium account as set out above	(d)	—	85,965	(85,965)	—
Issue of over-allotment shares	(f)	14,460,000	1,446	44,537	45,983
		1,014,460,000	101,446	340,492	441,938
Share issue expenses		—	—	(29,942)	(29,942)
At 31 December 2007		1,014,460,000	101,446	310,550	411,996

Notes:

(a) Upon incorporation of the Company, the authorised share capital was US$300,000,000 divided into 300,000,000 shares of US$1.00 each. 100,000 shares of US$1.00 each were allotted and issued on 29 December 2005.

(b) Pursuant to a shareholders' resolution passed on 21 March 2007, the authorised share capital of the Company was increased by HK$2,340,000,000 by the creation of 23,400,000,000 new shares of HK$0.10 each of which 7,800,000 new shares were allotted, issued and fully paid at par. The Company then cancelled all 100,000 issued shares of US$1.00 each at a price of US$1.00 each and cancelled the authorised share capital of 300,000,000 shares of US$1.00 each.

(c) Pursuant to a shareholders' resolution passed on 4 June 2007, the Company acquired 1,000,000 shares of HK$1.00 each in the entire share capital of Tensel by allotting and issuing an aggregate of 8,546,695 shares of HK$0.10 each of the Company, credited as fully paid at par to the then shareholders of Tensel.

(d) Pursuant to a written resolution of the shareholders passed on 9 June 2007, an aggregate of 859,653,305 shares of HK$0.10 each in the Company were allotted and issued, credited as fully paid at par, by way of capitalisation of the sum of HK$85,965,331 from the share premium account, to the then existing shareholders of the Company, whose names appeared in the register of the Company at the close of business on 11 June 2007, in proportion to their respective shareholdings. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's international placing and initial public offering as detailed in note (e) below.

34. Share Capital *(continued)*

Notes: (continued)

(e) In connection with the Company's international placing and initial public offering, 124,000,000 shares of HK$0.10 each were issued at a price of HK$3.18 per share for a total cash consideration, before listing expenses, of HK$394,320,000. Dealing in these shares on the Stock Exchange commenced on 29 June 2007.

(f) An over-allotment option (the "Over-allotment Option") was granted by the Company exercisable by UOB Asia (Hong Kong) Limited ("UOB Asia"), at any time within 30 days after 21 June 2007, being the last day for lodging of applications under the Hong Kong public offerings. Pursuant to the Over-allotment Option, the Company is required to allot and issue up to an aggregate of 18,600,000 new shares (the "Over-allotment Shares"), representing 15% of the 124,000,000 shares initially offered under the share offer, to cover over-allocations in the international placing.

On 17 July 2007, the Over-allotment Option had been partially exercised by UOB Asia on behalf of the international placing underwriters. Accordingly, 14,460,000 Over-allotment Shares were issued to Billion Era International Limited, a company wholly-owned by Mr. Chung Wai Ping, on 19 July 2007.

35. Share Option Schemes

The Company operates a pre-initial public offering share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme"), collectively, (the "Schemes") for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations and to motivate eligible participants to work towards enhancing the value of the Group for the benefits of the Group and the shareholder as a whole. The principal terms of the Pre-IPO Share Option Scheme are similar to the terms of the Share Option Scheme except that (i) no further options could be granted under the Pre-IPO Share Option Scheme upon the listing of the Company; (ii) exercise price of the share option; and (iii) the vesting period, as further detailed below.

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

The maximum number of unexercised share options currently permitted to be granted under the Schemes is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue on the listing date of the Company on 29 June 2007 (the "Listing Date"). The maximum number of shares issuable under share options to each eligible participant in the Schemes within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in advance in a general meeting.

35. Share Option Schemes *(continued)*

Share options granted under the Schemes to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue on the date of such grant or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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

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

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

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

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

35. Share Option Schemes *(continued)*

During the year, no share option granted under the Pre-IPO Share Option Scheme has been exercised since the date of grant. The following share options granted under the Pre-IPO Share Option Scheme were outstanding during the year:

	Weighted average exercise price HK$ per share	Number of options '000
At 1 January 2007	—	—
Granted during the year	1.59	15,190
Forfeited during the year	1.59	(40)
Exercised during the year	—	—
Expired during the year	—	—
At 31 December 2007	1.59	15,150

The exercise price and exercise period of the share options granted under the Pre-IPO Share Option Scheme outstanding as at 31 December 2007 are as follows:

Number of options '000	Exercise price HK$ per share	Exercise period
15,150	1.59	29 June 2009 to 28 June 2012

The fair value of the share options granted under the Pre-IPO Share Option Scheme during the year was HK$29,310,000 (HK$1.93 each) (2006: Nil each) of which the Group recognised a share option expense of approximately HK$5,655,000 (2006: Nil) during the year ended 31 December 2007.

The fair value of equity-settled share options granted under the Pre-IPO Share Option Scheme during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2007:

Dividend yield (%)	3.50
Expected volatility (%)	52.54
Risk-free interest rate (%)	4.88
Suboptimal exercise factor (times)	3.00
Share price per share at the grant date (HK$)	3.18

The suboptimal exercise factor is based on the directors' estimation and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

35. Share Option Schemes *(continued)*

No other feature of the options granted was incorporated into the measurement of fair value.

At 31 December 2007, the Company had 15,150,000 share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 15,150,000 additional ordinary shares of the Company and additional share capital of HK$1,515,000 and share premium of HK$22,573,500 (before share issue expenses). Subsequent to the balance sheet date and up to the date of approval of these financial statements, a total of 250,000 share options granted under the Pre-IPO Share Option Scheme were forfeited and the Company had 14,900,000 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 1.47% of the Company's shares in issue as at that date.

Save as disclosed above, no share option under the Share Option Scheme was granted during the year.

36. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 38 of the financial statements.

Capital reserve

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

Other reserve

On 31 July 2006, Tensel issued 991,000 shares to the then shareholders of Nature Lion, Keen Port, Skyking, Jetfat, Tin Shing, Poly Sky, Huge Sky, Basic Tech, companies now comprising the Group, in exchange for their equity interests therein. The other reserve of the Group represents (i) the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired; and (ii) the difference between acquisition of equity interests attributable to these then minority shareholders and the nominal value of the shares of Tensel issued in exchange therefor.

36. Reserves *(continued)*

(b) Company

	Notes	Share premium account HK$'000	Share option reserve HK$'000	Other reserve HK$'000	Retained profit HK$'000	Total HK$'000
At 1 January 2006, 31 December 2006 and 1 January 2007		—	—	—	—	—
Profit for the year		—	—	—	113,944	113,944
New issue of shares	34(e)	381,920	—	—	—	381,920
Shares issued for acquisition of Tensel	34(c)	—	—	427,527	—	427,527
Capitalisation issue	34(d)	(85,965)	—	—	—	(85,965)
Issue of Over-allotment Shares	34(f)	44,537	—	—	—	44,537
Share issue expenses		(29,942)	—	—	—	(29,942)
Equity-settled share option arrangements		—	5,655	—	—	5,655
Interim 2007 dividend	12	—	—	—	(33,000)	(33,000)
Special 2007 dividend	12	—	—	—	(30,000)	(30,000)
Proposed final 2007 dividend	12	—	—	—	(50,723)	(50,723)
At 31 December 2007		310,550	5,655	427,527	221	743,953

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

37. Business Combinations

On 1 January 2007, the Group entered into a sale and purchase agreement (the "PRC Agreement") with Messrs. Chung Wai Ping and Chung Ming Fat, the directors and shareholders of the Company, to acquire 100% equity interest in Glory Rainbow International Trading Limited ("Glory Rainbow"), Loyal Sky Holdings Limited ("Loyal Sky"), Skymark Asia Limited ("Skymark") and Sky Rich (China) Limited ("Sky Rich"), together with their subsidiaries (collectively, the "PRC Group") for a total cash consideration of HK$51,000,000 (the "Acquisition"). The PRC Group is principally engaged in restaurant operations in Mainland China.

37. Business Combinations *(continued)*

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

	Notes	**Loyal Sky** HK$'000	**Glory Rainbow** HK$'000	**Skymark** HK$'000	**Sky Rich** HK$'000	**Total** HK$'000
Property, plant and equipment	14	3,549	10,451	10,095	2,820	26,915
Deferred tax assets	20	1,043	1,743	274	1,253	4,313
Inventories		11	28	1,315	1,150	2,504
Trade receivables		189	1,182	78	83	1,532
Prepayments, deposits and other receivables		604	423	809	595	2,431
Due from related companies		—	551	3,758	17,785	22,094
Due from a related party		—	—	556	12	568
Cash and bank balances		3,950	3,371	1,532	866	9,719
Trade payables		(1,763)	(1,525)	(4,393)	(2,602)	(10,283)
Other payables and accruals		(2,368)	(4,344)	(2,054)	(870)	(9,636)
Due to related companies		(2,424)	(4,410)	(728)	(3,024)	(10,586)
Tax payable		(357)	(182)	(273)	—	(812)
Net assets acquired at fair values		2,434	7,288	10,969	18,068	38,759
Goodwill on acquisition (note 17)						13,109
Excess over the cost of a business combination recognised in the income statement (note 5)						(868)
Satisfied by cash						51,000

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

	HK$'000
Cash consideration	(51,000)
Cash and bank balances acquired	9,719
Net outflow of cash and cash equivalents in respect of the Acquisition	(41,281)

Since the Acquisition, the PRC Group contributed HK$188,122,000 to the Group's revenue and HK$18,839,000 to the consolidated profit for the year ended 31 December 2007.

The goodwill of HK$13,109,000 comprises the fair values of expected synergies arising from the Acquisition.

38. Major Non-cash Transactions

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK$264,000 (2006: HK$219,000).

In addition, the Group entered into rental agreements in respect of its restaurant properties under operating leases. Pursuant to the terms and conditions of the rental agreements, the Group is required to restore the restaurant properties to the conditions as stipulated in the rental agreements. As at 31 December 2007, the Group has accrued and capitalised the estimated restoration cost of HK$1,844,000 (2006: HK$2,479,000) when such obligation arose.

39. Contingent Liabilities

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank guarantees given in lieu of utility and property rental deposits	**27,946**	19,308	**—**	—
Guarantees given to banks in connection with facilities granted to subsidiaries	**—**	—	**236,100**	—

As at 31 December 2007, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$71,193,000 (2006: Nil).

40. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties to third parties under operating lease arrangements with leases negotiated for terms ranging from two to three years.

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

	2007	2006
	HK$'000	HK$'000
Within one year	**76**	76

40. Operating Lease Arrangements *(continued)*

(b) As lessee

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

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2007	2006
	HK$'000	HK$'000
Within one year	**128,495**	114,702
In the second to fifth years, inclusive	**195,951**	175,344
Beyond five years	**50,305**	26,963
	374,751	317,009

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

41. Commitments

In addition to the operating lease commitments detailed in note 40(b) above, the Group had the following capital commitments as at the balance sheet date:

	2007	2006
	HK$'000	HK$'000
Contracted but not provided for:		
Buildings	**—**	31,002
Leasehold improvements	**4,212**	—
Machinery and equipment	**796**	16,883

42. Related Party Transactions

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Company had the following material transactions with related parties during the year:

	Notes	2007 HK$'000	2006 HK$'000
Sales of food and other operating items to related companies	(i)	**82**	1,144
Purchases of food and other operating items from related companies	(i)	**—**	19,943
Interest income from a shareholder	(ii)	**—**	473
Rental expense to a related party	(iii)	**156**	156

Notes:

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

(ii) The interest income arose from the amount due from Mr. Chung Wai Ping. The amount, which was financing in nature, was unsecured, bore interest at 0.5% above the Hong Kong Inter-bank Offer Rate per annum and was set off against the amount payable to Mr. Chung Wai Ping at 31 December 2006.

(iii) The rental expense to a related party, Madam Chan Sai Ying, who is the spouse of Mr. Chung Wai Ping, was charged based on mutually agreed terms at a monthly fixed amount of HK$13,000.

(b) Amounts due from directors

The amounts due from directors, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

	31 December 2007 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2007 HK$'000
Name			
Mr. Chung Wai Ping	**1,295**	**1,475**	**—**
Mr. Chung Ming Fat	**1,295**	**1,295**	**—**
	2,590		**—**

The amounts due from directors at the balance sheet date arose from indemnification undertaken by the directors in respect of any liabilities incurred by the PRC Group prior to the Group's acquisition thereof on 1 January 2007 pursuant to the PRC Agreement. The amounts were fully settled subsequent to the balance sheet date.

The related party transactions in respect of item (a)(iii) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

43. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2007

Financial assets

	Group		
	Financial assets at fair value through profit or loss — designated as such upon initial recognition HK$'000	Loans and receivables HK$'000	Total HK$'000
Loan to an associate (note 19)	—	2,000	2,000
Rental deposits	—	44,683	44,683
Financial assets at fair value through profit or loss	82,007	—	82,007
Trade receivables	—	14,222	14,222
Financial assets included in prepayments, deposits and other receivables (note 24)	—	18,591	18,591
Due from directors	—	2,590	2,590
Pledged deposits	—	31,527	31,527
Cash and cash equivalents	—	459,486	459,486
	82,007	573,099	655,106

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	87,044
Financial liabilities included in other payables and accruals (note 29)	18,503
Interest-bearing bank borrowings	71,193
Finance lease payables	546
Due to a related company	628
Due to a minority shareholder of subsidiaries	2,258
	180,172

43. Financial Instruments by Category *(continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(continued)*

2006

Financial assets

	Group		
	Financial assets at fair value through profit or loss — designated as such upon initial recognition HK$'000	Loans and receivables HK$'000	Total HK$'000
Rental deposits	—	34,082	34,082
Financial assets at fair value through profit or loss	15,545	—	15,545
Trade receivables	—	8,508	8,508
Financial assets included in prepayments, deposits and other receivables (note 24)	—	20,090	20,090
Due from related companies	—	9,308	9,308
Pledged deposits	—	20,813	20,813
Cash and cash equivalents	—	137,912	137,912
	15,545	230,713	246,258

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	53,429
Financial liabilities included in other payables and accruals (note 29)	20,352
Interest-bearing bank borrowings	116,116
Finance lease payables	1,050
Due to related companies	21,443
Due to an associate	3,234
Due to a minority shareholder of subsidiaries	1,058
Due to a related party	3,866
	220,548

43. Financial Instruments by Category *(continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(continued)*

Financial assets

	Company	
	2007	2006
	Loans and receivables HK$'000	Loans and receivables HK$'000
Financial assets included in prepayments and other receivables (note 24)	**837**	—
Due from a subsidiary	**338,444**	780
Cash and cash equivalents	**123,011**	—
	462,292	780

Financial liabilities

	2007	2006
	Financial liabilities at amortised cost HK$'000	Financial liabilities at amortised cost HK$'000
Financial liabilities included in other payables (note 29)	**5**	—

44. Financial Risk Management Objectives and Policies

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

Interest rate risk

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

Assuming that the amount of bank balances outstanding at the balance sheet date was outstanding for the whole year with all other variables held constant, a 50 basis point increase/decrease in interest rates for Hong Kong dollars bank deposits at 31 December 2007 and 2006 would have increased/decreased the Group's profit before tax by HK$985,000 and HK$201,000, respectively. For US dollars bank deposits, a 50 basis point increase/decrease in interest rates at 31 December 2007 and 2006 would have increased/decreased the Group's profit before tax by HK$479,000 and HK$104,000, respectively. For Renminbi bank deposits, a 50 basis point increase/decrease in interest rates at 31 December 2007 and 2006 would have increased/decreased the Group's profit before tax by HK$224,000 and HK$27,000, respectively.

44. Financial Risk Management Objectives and Policies *(continued)*

Interest rate risk *(continued)*

For Hong Kong dollars floating-rate borrowings, assuming that the amount of liability outstanding at the balance sheet date was outstanding for the whole year with all other variables held constant, a 50 basis point increase/decrease in interest rates at 31 December 2007 and 2006 would have decreased/increased the Group's profit before tax by HK$356,000 and HK$581,000, respectively.

Credit risk

The Group's major exposure to credit risk arising from the default of the trade receivables, with a maximum exposure equal to their carrying amounts in the consolidated balance sheet. The Group has no significant concentrations of credit risk with respect to its restaurant operations as it has a large number of diversified customers. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which mainly comprise cash and bank balances, financial assets at fair value through profit or loss, other receivables, amounts due from directors and an associate, arise from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Foreign currency risk

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

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

Liquidity risk

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

44. Financial Risk Management Objectives and Policies *(continued)*

Liquidity risk *(continued)*

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

	2007				
	Repayable on demand/no fixed terms of repayment HK$'000	**Less than 1 year HK$'000**	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Trade payables	**—**	**87,044**	**—**	**—**	**87,044**
Other payables	**—**	**18,503**	**—**	**—**	**18,503**
Interest-bearing bank borrowings	**—**	**22,825**	**47,864**	**504**	**71,193**
Finance lease payables	**—**	**368**	**178**	**—**	**546**
Due to a related company	**628**	**—**	**—**	**—**	**628**
Due to a minority shareholder of subsidiaries	**2,258**	**—**	**—**	**—**	**2,258**
	2,886	**128,740**	**48,042**	**504**	**180,172**

	2006				
	Repayable on demand/no fixed terms of repayment HK$'000	Less than 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Trade payables	—	53,429	—	—	53,429
Other payables	—	20,352	—	—	20,352
Interest-bearing bank borrowings	—	46,715	67,926	1,475	116,116
Finance lease payables	—	664	386	—	1,050
Due to related companies	21,443	—	—	—	21,443
Due to an associate	3,234	—	—	—	3,234
Due to a minority shareholder of subsidiaries	1,058	—	—	—	1,058
Due to a related party	—	—	3,866	—	3,866
	25,735	121,160	72,178	1,475	220,548

44. Financial Risk Management Objectives and Policies *(continued)*

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and business strategy. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

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

Group

	2007 **HK$'000**	2006 HK$'000
Total borrowings	**71,739**	117,166
Total shareholders' equity	**929,528**	363,900
Gearing ratio	**7.7%**	32.2%

45. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 10 April 2008.

Financial Summary

	Year ended 31 December			
	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS				
REVENUE	**2,099,684**	1,574,381	1,377,836	1,137,243
Other income and gains	**59,440**	10,256	5,022	4,977
Cost of inventories consumed	**(713,512)**	(511,043)	(465,281)	(419,633)
Staff costs	**(581,580)**	(464,880)	(426,199)	(346,846)
Lease payments under operating leases in respect of land and buildings	**(138,606)**	(107,476)	(88,521)	(71,999)
Depreciation of property, plant and equipment	**(92,181)**	(55,197)	(51,137)	(49,176)
Recognition of prepaid land lease payments	**(1,092)**	(1,582)	(1,166)	(742)
Fair value gains/(losses) on investment properties	**2,700**	(300)	642	3,100
Other expenses	**(385,231)**	(261,926)	(240,082)	(180,263)
Finance costs	**(4,747)**	(5,458)	(4,738)	(3,500)
Share of profits and losses of associates	**50**	(2)	828	(26)
PROFIT BEFORE TAX	**244,925**	176,773	107,204	73,135
Tax	**(42,350)**	(31,034)	(19,799)	(6,491)
PROFIT FOR THE YEAR	**202,575**	145,739	87,405	66,644
Attributable to:				
Equity holders of the Company	**200,306**	138,839	77,969	58,802
Minority interests	**2,269**	6,900	9,436	7,842
	202,575	145,739	87,405	66,644

	As at 31 December			
	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS, LIABILITIES AND MINORITY INTERESTS				
TOTAL ASSETS	**1,271,529**	698,979	519,149	434,545
TOTAL LIABILITIES	**(339,902)**	(334,309)	(386,211)	(387,385)
MINORITY INTERESTS	**(2,099)**	(770)	(17,894)	(10,085)
	929,528	363,900	115,044	37,075

The summary of the consolidated results of the Group for each of the three years ended 31 December 2004, 2005 and 2006 and of the assets, liabilities and minority interests as at 31 December 2004, 2005 and 2006 have been extracted from the Company's prospectus dated 15 June 2007. Such summary was prepared as if the current structure of the Group has been in existence throughout these financial years and is presented on the basis as set out in note 2.1 to the financial statements. The consolidated results of the Group for the year ended 31 December 2007 and the consolidated assets and liabilities of the Group as at 31 December 2007 are those set out in the audited financial statements.

The financial information for the year ended 31 December 2003 was not disclosed as financial statements of the Group have not been prepared for that year.